

# Investigating Consumer-Brand Relationships

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# 1. Introduction

## 1.1. Brands as Relationship Partners

Traditionally, a brand has been understood as “a name, term, sign, symbol or design, or a combination of them which is intended to identify the goods and services of one seller or a group of sellers and to differentiate them from those of competitors” (Kotler, 1997, p. 443). With the advancement of brand research however, the ability of brands to serve as relationship partners for consumers has become a focal point of research. Relationship principles have virtually replaced short-term exchange notions in both marketing thought (Webster, 1992) and practice (Peppers & Rogers, 1993) precipitating what has been considered a paradigm shift in marketing research (Deighton, 1996): “A call for the advancement of understanding consumer-firm relationships comes as customer satisfaction and other traditional measures used for relationship evaluation such as trust, commitment, and long term orientation do not seem to capture the fullness of the relationship notion” (Walls, 2003, p. 7).

A key reason for the advancement of the relationship paradigm in consumer research is the new, increasingly efficient ways that companies have of understanding and responding to customers' needs and preferences, allowing them to build more meaningful connections with consumers than ever before (Fournier, Dobscha, & Mick, 1998). In fact Deighton (1996) has argued for a shift from *broadcast* marketing to *interactive* marketing. The term *interactive* refers to two communication features: the ability to address an individual and the ability to remember his response. That way the company can address the individual again, taking into account his prior unique response, thus making an interactive communication between company and customer possible. According to Deighton, mass marketing concepts and practices are taking advantage of new ways to become more customized, more responsive to the individual.

The idea that people form relationships with brands is not without controversy however. Researchers have critically acknowledged that non-social judgments differ from social judgments in several ways. For example Kardes (1986) found that the effect of an initial judgment on subsequent judgments of a product differs from the extent of this effect on social

judgments. In addition people often use the self as a frame of reference when judging other people, but do not do so when judging nonsocial objects (Fiske & Taylor, 1991). Hence, is it at all valid to conceptualize brands as relationship partners?

Relationships have traditionally been defined as sequences of interactions between parties where the probable course of future interactions between them is significantly different from that of strangers (Hinde, 1976). Based on that, Aggarwal (2004) argues that established consumer interactions with brands could also be characterized as relationships because they too can be seen as sequences of interactions that differ from mere singular transactions. Concerning the question, when we can speak of a relationship, Macneil (1978) argues that purely discrete transactions constitute a rare exception. He suggests a continuum ranging from discrete transactions to relationships. According to him most transactions (including purely commercial transactions) have a relational character. The idea of a relationship continuum can also be found in Fournier's (1998) work: she describes consumers' relationships with brands as ranging from best friendships to forced marriages or flings.

Empirical support for the relationship metaphor can be found in studies showing that consumers anthropomorphize brands as well as research showing that consumers bond with brands in similar ways as they do with social relationship partners. On a very general level, the human tendency to anthropomorphize inanimate objects has been identified as universal to all societies (Brown, 1991). Theories of animism suggest a felt need of people to anthropomorphize objects in order to facilitate interactions with the nonmaterial world (Gilmore, 1919; McDougall, 1911; Nida & Smalley, 1959). In fact consumer research has provided first evidence that consumers are able and willing to view brands as animate objects: they consistently assign personality traits to brands (Aaker, 1997; Aaker, Fournier, & Brasel, 2004) and engage in trait inferences similar to those used in personal interactions (Johar, Sengupta, & Aaker, 2005) or think about brands as if they were human characters (Levy, 1985; Plummer, 1985).

Recent research in marketing has adopted relationship specific concepts and successfully applied them to the consumer-brand domain: Paulssen and Fournier (under review) applied and extended attachment theory, which has produced a large body of evidence for explaining individual differences in personal relationship behavior (see e.g., Ainsworth & Bowlby, 1991), to the marketing domain. They found that, similar to the interpersonal domain,

consumers develop different attachment styles in relationships with their brands. Based on their work they concluded that “although the existential reality of the commercial relationship may never be proven, empirical results such as ours, which demonstrate that consumer-brand/dealer engagements behave in an ‘as if’ fashion to personal relationships, provide reasons to continue development of the relationship paradigm in consumer research” (Paulssen & Fournier, under review). Furthermore, Aggarwal and colleagues (Aggarwal, 2004; Aggarwal & Law, 2005; Aggarwal & Zhang, 2006) have provided first indications that norms may govern consumer-brand relationships and influence consumers’ acceptance of certain marketing tactics, perceived as ‘brand behavior’.

However, by and large, research on consumer-brand relationships remains scarce: “The study of relationships is increasingly important to marketing theory and practice, yet research on consumer product and brand relationships has been limited” (Fournier & Brasel, 2002, p. 102). It is the aim of this dissertation to fill several important lacks in consumer-brand relationship research, thereby advancing the field as a whole and providing further evidence for the relationship metaphor in consumer research. This dissertation consists of five articles concerned with different aspects of consumer-brand relationships. In the remainder of this chapter the articles will be introduced and their relation to the broader topic of consumer-brand relationships will be pointed out. Each of the following subsections will also go beyond the articles and provide a wider introduction of the focal topics at hand. Article 1 looks at what makes consumers consider a brand in the first place, the precondition for a brand to establish a relationship with a consumer. Article 2 deals with sustaining consumer-relationships and the role of satisfaction in retaining customers. Article 3 looks at whether consumers stay with the brand in the case of a relationship problem, actively work to sustain the relationship or silently let it deteriorate. It shows that relationship norms constitute an important factor in how consumers react to such negative incidents in a relationship. Article 4 investigates the effect of negative brand information on consumers’ attitudes and article 5 develops communication strategies for companies to employ when negative brand incidents occur.

## 1.2. Entering Consumers' Consideration Sets

“One of the most important roles played by brands ... is their effect on consumer brand choice and consideration” (Erdem & Swait, 2004, p. 191). Entering a consumer's consideration set is the condition sine qua non for establishing a relationship. However, whether consumers consider a brand ultimately depends on their perceptions of the brand and whether they think that the brand is able to satisfy their relevant purchase goals:

“What matters in the construction of brand relationships is not simply what managers intend for them, or what brand images “contain” in the culture ... but what consumers do with brands to add meaning in their lives. The abstracted, goal-derived, and experiential categories that consumers create for brands are not necessarily the same as the categories imposed by the marketers in charge of brand management” (Fournier, 1998, p. 367).

As an example, when VW decided to launch its luxury car *VW Phaeton* its goal was to establish relationships with customers on whom the VW brand previously had missed out on: the segment of luxury car customers, willing to pay premium prices and promising high margins. From a resource based strategic management perspective the outlook was optimistic: VW had control of the essential resources and adequate firm characteristics for production, existing distribution channels and even experience with the production and sales of luxury brands like *Bentley*, *Lamborghini*, and *Bugatti*. However despite millions of Euros spent in marketing costs and a product equal or superior to competitors' products VW failed to sell more than a fifth of *VW Phaeton* cars from what management had expected (Rust, Zeithaml, & Lemon, 2004). What VW managers may have overestimated is the ability of a VW brand car to satisfy the product category goal of consumers in the luxury car segment despite a strategic positioning to do so. As the results of article 1 show, most customers in the luxury car segment did not consider the VW brand, in fact many even clearly rejected it.

### 1.2.1. Consideration Sets

Consumers do not equally consider all brands before making a purchase decision (see Roberts & Lattin, 1997). Some brands are rejected immediately because they are not relevant for purchase, too expensive or of clearly insufficient quality and so forth. Other brands receive intense scrutiny and are part of a set of brands a consumer actively considers before making a purchase decision. Wright and Barbour (1977, p. 91) were the first to introduce the term *consideration set*, defining it simply as “the brands a consumer will consider”. Generally consideration sets are seen as being dynamic in the sense that they evolve over time (Howard, 1977; Roberts & Lattin, 1991).

Narayana and Markin (1975) conceptualized the categorization process comprising of an awareness and an unawareness set, the latter containing all the brands the consumer has never heard of. The awareness set in turn, they argued, consists of a consideration set, containing the brands a consumer has a positive evaluation of and that he actively considers, an inert set, containing brands he carries neither a positive nor negative evaluation, and an inept set, containing brands he clearly rejects. Brisoux and Laroche (1980) advanced the model by differentiating between processed set and foggy set, the latter containing all those brands that due to cognitive capacity limits are not completely processed. Similar to Narayana and Markin, Brisoux and Laroche differentiate between consideration set, hold set and reject set. In contrast to the inert set, the hold set however does not consist of brands with neutral evaluation but brands that are neither acceptable nor unacceptable. Early work on consideration sets has focused on consideration set size and correlates and provided conclusive evidence for the existence of consideration sets (see Ostlund, 1974; Jarvis & Wilcox, 1973; Maddox et al., 1978; Gronhaug, 1973; Belonax & Mittelstaedt, 1978; Prasad, 1975; Gronhaug & Troye, 1983; May & Homans, 1977; Belonax & Javalgi, 1989).

Different perspectives on consideration set formation have evolved in the literature. Normative approaches (see Hauser & Wernerfelt, 1990; Roberts & Lattin, 1991) are based on Stigler’s (1961) notion that the economic theory of utility-maximizing behavior can be used to predict the amount of information a decision maker should acquire. While search costs remain constant with each additional brand considered, the marginal expected utility from the search decreases with the number of brands already examined. Hence, an optimal number of

brands to consider exists: a consumer outweighs the cost of including additional brands into his consideration set against the expected benefit of adding more brands (Roberts & Nedungadi, 1995).

Information processing approaches argue that consideration set formation is a consequence of humans' constraint capacity to consider and evaluate all existing brands. Howard and Sheth (1969) conceptualized consideration set formation as a learning process, in which a consumer tries and evaluates different brands and over repeated exposure and purchase eventually learns which brands to include. The consideration set is viewed as a heuristic to reduce purchase effort.

Stimulus-based choice approaches focus on the limited capacity of short-term memory and its influence on information processing (Bettman, 1979). The formation process is conceptualized as a two-stage process, with an initial non-compensatory screening phase and a mostly compensatory evaluation phase (Bettman, 1979; Lussier & Olshavsky, 1979; Olshavsky, 1979). This two-step process could be observed in several studies (see Lussier & Olshavsky, 1979; Olshavsky, 1979; Wright & Barbour, 1977; Payne, 1976). Memory-based choice approaches have focused on the influence of retrieval processes on consideration-set formation. The approach rests on the availability–accessibility paradigm (Tulving & Pearlstone, 1966) distinguishing between general awareness (i.e., known brands) or availability and (b) situation-specific awareness (i.e., retrieved brands) or accessibility.

Memory-based choice approaches are problematic however, because brands may be recalled even though they will eventually be rejected (see Holden, 1993). Therefore, Paulssen and Bagozzi (2005) provided a direct investigation of the antecedents of brand categorization. Based on Carver and Scheier's (1998) theory of self-regulation, they developed and empirically tested a self-regulatory model of consideration-set formation that incorporates consumers' goal-oriented, purposive behavior (Bagozzi & Dholakia, 1999; Bagozzi & Natarajan, 2000). Similarly, Chakrawati, & Janiszewski (2003) could point out the role of motives on the consideration set composition in novel purchase situations. Their work represents a shift from the prevalent information-processing perspective and the accessibility–availability paradigm to a motivational point of view on consideration set formation and consumer behavior.

### **1.2.2. Consideration Sets as Goal-Derived Categories**

Following Ratneshwar, Pechmann, and Shocker's (1996) initial hypothesis, Paulssen and Bagozzi (2005) could show that consideration sets can be conceptualized as goal-derived categories. The term 'goal-derived categories' was originally coined by Barsalou (1991) based on early research on categorization processes (see Mervis & Rosch, 1981), describing often highly specialized sets of objects people create in everyday life, like 'things to eat on a diet'. Similar to classic taxonomic categories, goal-derived categories possess a continuum of degrees of membership that range from typical members to typical non-members. This has been referred to as 'graded structure' (Rosch, 1975; Barsalou, 1991).

Similar to graded structure where typical members of a category, unclear members of a category and non-members can be distinguished, frameworks of brand-categorization with a similar tri-partition into consideration, hold, and reject set have been developed (Laroche & Toffoli, 1999; Brisoux & Laroche, 1980; Peter & Olson, 2005). For example, depending on the goals of consumers, members of the product category 'chair' should be assigned different degrees of membership in the resulting goal-derived categories. The degree of membership of a particular chair in the different goal-derived categories will then be a function of its ability to serve the associated goals. A consumer with the goal derived category 'chairs that provide back support' will assign an orthopedic chair a high degree of membership whereas a consumer with the goal derived category 'chairs that look stylish' will likely assign it a low degree of membership. In a purchase situation a consumer with the goal derived category 'chairs that provide back support' would hence include the orthopedic chair in his consideration set, whereas a consumer with a goal-derived category 'chairs that look stylish' would likely include it in his reject set. A third customer with the goal derived category 'chairs that are durable' may neither clearly consider nor clearly reject it and include the orthopedic chair in his hold set (see Paulssen & Bagozzi, 2005).

### **1.2.3. The Relationship between Consideration Sets, Market Segments and Strategic Groups**

To understand which brands comprise consumers' consideration sets is of crucial importance because these are the only ones that are seriously scrutinized in a purchase decision. A market can be divided into a certain number of segments in which consumers consider a distinctive

subset of brands (Cooper & Inoue, 1996). Each market segment can also be described by the probabilities that brands are in the consideration, hold or reject set of its respective customers. Competition between them exists to the extent that potential customers perceive them as substitutes at a particular purchase occasion (Cooper & Inoue, 1996; Siddarth, Bucklin, & Morrison, 1995)

The supply-side analogue to market segments are strategic groups (Grover & Srinivasan, 1987), commonly defined as firms that intensely compete in a particular segment and use similar strategies (Bauer, 1991). The topic of strategic groups has been one of the most active areas of strategic management research (see Peteraf & Shanley, 1997) and has generated large amounts of publications on the topic over the last three decades (McNamara, Deephouse, & Luce, 2003). It was Hunt (1972) who first introduced the concept of strategic groups in his dissertation in order to describe intra-industry structure. Porter (1979) later conceptualized strategic groups as persistent structural features of industries and Hatten and Hatten (1987, p. 329) contended that strategic groups segment firms into “sets of companies whose competitors, actions and results are relevant to each other”.

Most research on strategic groups has been conducted by analyzing archival strategy variables (McGee & Thomas, 1986; Ketchen, Thomas, & Snow, 1993), mostly using cluster analysis methods (Cool & Schendel, 1988; Fiegenbaum & Thomas, 1990). However these approaches have been criticized for a lack of theory (Barney & Hoskisson, 1990; Peteraf & Shanley, 1997), an over-reliance on secondary data (Thomas & Venkatraman, 1988), an inability to explain how and why competitive structures in industries come to develop (Hodgkinson, 1997) and a failure to predict future strategic behavior and performance (Thomas & Venkatraman, 1988). Starting with Porac, Thomas, and Baden-Fuller (1989) research on strategic groups in the nineties has investigated groupings of firms based on managers' cognitions (Reger & Huff, 1993). Porac et al. found that managers shared themes about the boundaries of the competitive domain and often showed wide agreement about the competitive process in that domain. Many studies have since been concerned with managers' groupings of firms, investigating links to other grouping methods (Nath & Gruca, 1997), performance measures (McNamara, Luce, & Thompson, 2002; Osborne, Stubbart, & Ramaprasad, 2001; Zúñiga-Vicente et al., 2003) and reputation differences (Ferguson, Deephouse, & Luce, 2000). Summarizing the contribution of cognitive research in the



strategic group domain, Peteraf and Shanley (1997, p. 165) argued, “The most compelling evidence for the existence of meaningful groups of firms within industries comes from cognitive studies and from organizational ecology”. Surprisingly few studies however exist, investigating customer-side approaches to strategic groups (exceptions are Day et al., 1987 and Pegels & Sekar, 1989).

Corollary to the existence of strategic groups is the concept of mobility barriers (McGee & Thomas, 1986): “the concept of mobility barriers is inextricably bound to any discussion of strategic groups” (Olusoga, Mokwa, & Nobel, 1995). Mobility barriers are structural forces impeding firms from freely changing their competitive position (Hodgkinson, 1997). Mobility barriers can be caused by market related strategies, industry supply characteristics and firm characteristics (McGee & Thomas, 1986) as well as assets such as brand name, loyal customer base or distribution channels (Mascarenhas & Aaker, 1989). From a customer side perspective, a strategic group is at least partly sheltered from competition because other firms cannot readily imitate the mix of product attributes preferred by customers of a particular segment. Hence, customer preferences restrict strategic movements of companies. Therefore customer preferences can be conceptualized as mobility barriers for firms.

Because brands that make up an individual’s consideration set are those brands he perceives as substitutes (Roberts & Lattin, 1991), competition between goods or services exists to the extent that potential customers jointly consider them in a particular purchase. The more consumers jointly consider two brands, the higher the degree of substitutability and hence the greater the intensity of competition between those two brands should be (Cooper & Inoue, 1996; Siddarth et al., 1995). Following this argument, several researchers have employed consideration sets in order to structure a market (e.g., DeSarbo & Jedidi, 1995; Finn & Louviere, 1990).

#### **1.2.4. Contributions of Article 1**

Following Cooper and Inoue (1996) article 1 proposes that market segments or strategic groups can be seen as types of consumers with homogeneous patterns of brand categorization. Using latent class analysis article 1 shows that consumer groups or brand categorization types with intense rivalry between certain brands but lesser rivalry with other

brands emerge. Further, results of article 1 show that the salience of the product category goal ‘self-presentation of social status’ differs across these types and that in turn the salience of this product category goal determines the importance consumers attach to certain benefits like ‘sporty driving’ or ‘comfort’.

Structuring markets based on consumers’ brand categorization patterns allows the characterization of market segments by the probability of brand consideration, rejection, or neutrality. This approach results in a clear picture of preference barriers, which can be seen as mobility barriers for firms. By categorizing brands into ‘consideration’, ‘uncertain’ and ‘reject’ set, these patterns also allow for an estimation of the strength of demand-side mobility barriers. Firms that want to overcome these barriers will need to address prevalent customer goals and corresponding benefits. Apparently VW’s *Phaeton* was not able to sufficiently satisfy the goal of ‘self presentation of social status’. Article 1 shows that the probability that consumers in the ‘luxury car segment’ would reject a VW-brand car was 0.83, creating an especially high mobility barrier for VW.

Article 1 contributes to research on consumer-brand relationships by providing support for Fournier’s (1998) notion that the goal-derived categories that consumers create for brands are not necessarily the same as the categories imposed by marketers in charge of brand management. When trying to enter consumer relations marketing managers hence are well advised to investigate customers’ perceptions of a brand’s ability to satisfy their relevant consumption goals.

### **1.3. Establishing Lasting Brand Relationships**

Undoubtedly, entering the consideration set of a consumer is a pre-condition for establishing a relationship with a consumer, followed by the consumer’s actual choice of the brand over the other competing brands in his consideration set. Until the eighties marketing researchers have primarily focused on single transactions that consumers make (Homburg & Bruhn, 2005). As outlined above, during the nineties, marketing has undergone a paradigm shift (Grönroos, 1994; McLoughlin & De Bourca, 1996; Brodie et al., 1997), redefining marketing in relationship terms and stressing the need for effective management of consumer-brand loyalties (Blattberg & Deighton, 1991; Reichheld & Sasser, 1990; Webster, 1992) making

brand loyalty a key topic of interest for marketing scholars until today (see e.g., Homburg, Hoyer, & Stock-Homburg, 2007).

### **1.3.1. Consumer Loyalty**

In contrast to a consumer's single choice of a brand over competing alternatives in his consideration set, loyalty has been defined as "the biased behavioral response expressed over time by some decision-making unit with respect to one or more alternative brands out of a set of such brands" (Jacoby & Chestnut, 1978, p. 80). More extensive definitions of consumer loyalty conceptualize it as a three-dimensional construct comprising, repurchase behavior, willingness to cross-buy other products from the same company and willingness to recommend (Anderson, 1998; Homburg & Bruhn, 2005; Szymanski & Henard, 2001).

Part of the interest in brand loyalty stems from the recognition that attracting new customers is typically much more expensive than keeping existing customers: across a wide range of businesses, the pattern is the same: the longer a company keeps a customer, the more money it makes (Reichheld & Sasser, 1990, p. 106). The reason for this is usually, that attracting new customers comes with costs attached (e.g., advertisements, promotions). Hence, research on customer relationship management has essentially focused on activities that attempt to retain existing customers (Homburg, Hoyer, & Stock-Homburg, 2007). A central research issue in this context is the investigation of the relationship between loyalty and another key marketing concept - customer satisfaction (e.g., Anderson et al., 1994; Bolton, 1998; Kamakura et al., 2002; Mittal & Kamakura, 2001; Mittal, Ross, & Baldasare, 1998; Taylor & Baker, 1994).

### **1.3.2. Consumer Satisfaction**

Satisfaction can be seen as an attitude-like judgment following a purchase act or based on a series of consumer product interactions (Czepiel & Rosenberg, 1977; Day & Landon, 1977; Yi, 1990). Oliver (1997, p. 13) defines satisfaction as a "consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a *pleasurable* level of consumption-related fulfillment, including levels of under- or overfulfillment." The concept of under- or overfulfillment is mirrored in the most widely

accepted model of customer satisfaction, the Confirmation-Disconfirmation (CD) – Paradigm, that has prevailed as the key satisfaction paradigm (see Oliver, 1997; Bolton & Drew, 1991; Cadotte, Woodruff, & Jenkins, 1987; LaBarbera & Mazursky, 1983; Richins & Bloch, 1991; Spreng, MacKenzie, & Olshavsky, 1996). The CD-Paradigm can be seen as an integrative framework, in which numerous other theories explaining customer satisfaction like assimilation theory (see Clow, Kurtz, & Ozmet, 1998; Mittal, Kumar, & Tsiros, 1999), contrast theory (see Oliver, 1997), assimilation-contrast theory (see Meyers-Levy & Tybout, 1997) attribution theory (see Folkes, 1984, 1988) or prospect theory (see Tversky & Kahneman, 1981, 1991) can be integrated (see Homburg & Stock-Homburg, 2006).

According to the CD-Paradigm confirmation or disconfirmation of pre-consumption product standards is the essential determinant of customer satisfaction (Everelles & Levitt, 1992; Oliver, 1997). Confirmed standards should thereby lead to moderate satisfaction whereas positively disconfirmed standards (exceeding the expectations) should lead to high satisfaction. Dissatisfaction in turn should be the result of negatively disconfirmed standards (underachieving expectations). Three main comparison standards have evolved in the literature (Fournier & Mick, 1999): predictive expectations of attribute performance (Boulding et al. 1993; Oliver, 1997; Tse & Wilton, 1988), experience-based norms derived from personal experience or information received (Cadotte, Woodruff, & Jenkins, 1987), and desires based on features and benefits that are perceived as ideal (Westbrook & Reilly, 1983).

### **1.3.3. The Satisfaction-Loyalty Link**

Even though a strong relation between satisfaction and loyalty is a widely held assumption in management, research on the proposed link between satisfaction and loyalty has repeatedly found that the “intuitive” underlying assumption that satisfied customers stay loyal to the brand does not always hold (Bendapudi & Berry, 1997; Ganesh, Arnold, & Reynolds, 2000; Jones & Sasser, 1995; Keaveney, 1995), which led to an increased interest of researchers on the link between satisfaction and loyalty in the nineties (e.g., Reichheld & Sasser, 1990; Fornell, 1992; Fornell et al., 1996; Heskett et al., 1994; Giering, 2000). Researchers have acknowledged that the link between satisfaction and loyalty may be more complex than previously assumed (Oliva, Oliver, & MacMillan, 1992) and have found that several demographic customer characteristics like education, sex, or age moderate the satisfaction-

loyalty link (Mittal & Kamakura, 2001). For example, Mittal and Kamakura found that women needed a lower level of satisfaction to repurchase than men. However, Seiders et al. (2005) provided an extensive overview of different studies concerned with moderators of the satisfaction-loyalty link and found only little congruence between the results of the different studies. They concluded that, “although prior research points to several variables that may moderate the satisfaction repurchase relationship, empirical results are equivocal and difficult to reconcile” (Seiders et al., 2005, p. 26).

A further problem of satisfaction-loyalty research has been a lack of studies using behavioral measures (Mittal & Kamakura, 2001) with the majority of them using intentional loyalty measures (for a review see Seiders et al., 2005). This is surprising, as the question whether satisfaction ultimately translates into consumers’ repurchasing behavior is of pivotal importance to management. The use of intentional measures further suffers from problems such as inflated common method variance (see Mazursky & Geva, 1989) as well as spurious correlations (Arnold, Feldman, & Purbhoo, 1985; Zedeck, Kafry, & Jacobs, 1976). Specifically Mittal and Kamakura (2001) as well as Seiders and colleagues (2005) found that results from studies using intentional measures differed significantly from those using actual behavior data.

#### **1.3.4. Contributions of Article 2**

Article 2 makes two central contributions to research on the satisfaction-loyalty link. First, it addresses the problem of previous equivocal findings on the role of demographics as moderators of the satisfaction-loyalty link: a key problem with existing studies investigating the satisfaction-loyalty link has been, that they each focused on one single brand. The possible moderating role of brand has so far been fully neglected, i.e., whether the moderating role of demographics varies for different brands. Article 2 addresses this by investigating moderating variables of the satisfaction-loyalty link for various brands. Second, instead of intentional measures it investigates consumers’ actual repurchase behavior and satisfaction with the replaced vehicle. One of the key results of article 2 is that the moderating role of demographic variables differs for different brands.

Findings from this article are of key theoretic and managerial importance. From a theoretic standpoint they can explain the equivocal results of previous studies: the moderating role of demographic characteristics cannot simply be extrapolated from one brand to another. In other words, whereas women may need to be less satisfied in order to repurchase a Mercedes-Benz than men, no such differences may exist for VW customers. From a managerial perspective the advantages are two-fold: identifying those customers with a high intrinsic retainability (those customers who will stay in the relationship even at low satisfaction levels) is central for identifying those customers for whom relationship building does pay out (Reinartz & Kumar, 2003). Those customers that are intrinsically volatile (leaving the company even when highly satisfied) are short lived and investments in relationship building with these may be a waste of resources. On the other hand customers of key competitors with little intrinsic retainability should represent the customer group that should switch most easily and should specifically be targeted by management.

#### **1.4. Norms in Consumer-Brand Relationships**

Although customer satisfaction has become a key focus of marketing strategy (Homburg, Koschate, & Hoyer, 2005), marketing tactics or mistakes repeatedly lead to violations of consumers' expectations towards their brands and subsequently to a decline in satisfaction: "Customer satisfaction rates in the United States are at an all-time low, while complaints, boycotts, and other expressions of consumer discontent rise" (Fournier, Dobscha, & Mick, 1998, p. 43). Fournier and colleagues argue that this is due to brand behavior that many customers do not find acceptable: "When we talk to people about their lives as consumers, we do not hear praise for their so-called corporate partners. Instead, we hear about the confusing, stressful, insensitive, and manipulative marketplace in which they feel trapped and victimized" (Fournier, Dobscha, & Mick, 1998, p. 43).

Similarly McGraw and Tetlock (2005, p. 14) reason: "Consumers who have been gulled into thinking of themselves as part of a corporate family or partnership may feel especially bitter when they discover that the other party was treating them along purely as objects of monetary calculation". As Aaker, Fournier, and Brasel (2002) argue, relationship growth is a complex process in which the occurrence of a transgression or letdown is inevitable. A transgression is commonly defined as a behavior by a relationship partner that is perceived as inconsistent

with a relational rule or expectation (see e.g., Baumeister, Stillwell, & Heatherton, 1995; Boon & Holmes, 1999). However research on consumer-brand relationships has so far widely neglected to specify what relational rules or norms actually govern consumers' relationships with brands (Aaker et al., 2004).

Research in consumer behavior has just recently turned to the topic of norms that may evolve in consumer-brand relationships (see e.g., Aggarwal, 2004; Aggarwal & Law, 2005; Aggarwal & Zhang, 2006). However this research suffers from key deficits, such as the lack of a measurement of norms in real consumer-brand relationships (focusing on hypothetical brand relationships in the laboratory), hence leaving Johar's (2005, p. 26) key question "is there a norm attached to brand behavior" unanswered. For the advancement of the consumer-brand relationship metaphor, investigating whether relationship norms do govern consumer-brand relationships hence is of pivotal importance.

#### **1.4.1. The Norm Concept**

On a general level Kahneman and Miller (1986) developed a model of norms, specifically explaining activation processes that lead to the generation of norms. According to their model, a stimulus recruits the ad hoc generation of alternatives, the so-called counterfactual reasoning and in parallel recruits its own alternatives, its own frame of reference to which the stimulus is compared to. The aggregated set of recruited representations constitutes the norm. A stimulus event not only elicits a norm that it is compared to, it also influences the norm that subsequent events are being compared to. The latter is done in two different ways: a) by eliciting expectations for future events and b) by laying down a memory trace that is activated when a subsequent event is an appropriate reminder (see Kahneman & Miller, 1986). According to Kahneman and Miller (1986) an event is considered abnormal if it has highly available alternatives. These alternatives may be constructed as counterfactual alternatives retrieved from memory. Norms can be evoked by probes, and one and the same probe can elicit retrieval as well as construction: a probe can remind a person of similar experiences in the past and lead to the generation of counterfactual alternatives. Probes are either experiences of an object / event or references to a category. Accordingly Kahneman and Miller distinguish between two kinds of norms, stimulus norms and category norms. In category-centered comparisons, the object of judgment is compared to the norm for a specified category. Explicit reference to a category however, permits a high degree of control

over the selection of norm elements. In stimulus-centered comparisons, the elements of the norm are recruited directly by the stimulus. Those elements are favored that resemble the evoking stimulus.

The notion of category norms assumes that a single instance should be sufficient for setting up a norm. This becomes apparent in findings that people are willing to radically generalize from single observations of certain behavior to a norm for the behavior a) across other people in the same situation and b) across situations for the same person (see e.g., Nisbett & Ross, 1980; Read, 1983). Generalizations are apparently made with high confidence, depending largely on the consistency of the information as compared to quantity and quality of the information (see e.g., Kahneman & Tversky, 1973) and lead to predictions of future behavior as well as to inferences about traits.

On a more relationship specific level, Fiske (1991) developed a model specifying norms that emerge in relationships. Fiske's *Relational Models Theory* accounts for people's implicit representations of their relationships. He proposed four elementary and universal cognitive models for the representation of social relationships. Those models are *communal sharing*, based on the norm of equivalence, *authority ranking*, based on the norm of asymmetry, *equality matching* based on the norm of reciprocity and *market pricing* based on the norm of proportionality. In the marketing domain, McGraw and Tetlock (2005) have drawn on Fiske's (1991) Relational Models Theory to investigate the role different relational models in market transactions. They could show in several scenario-based studies that the prevalent relationship norm strongly influenced the perceived acceptability of a certain market transaction between seller and buyer. In a slightly simplified model Clark and Mills (1993) distinguish between *communal* and *exchange relationships* based on the norms of giving benefits to the partner. Exchange relationships are based on the *reciprocity norm*, the idea of giving something in return for getting something back. On the contrary in communal relationships – that are commonly found between family members – benefits are given to the relationship partner out of a concern for his well being, without expecting a comparable benefit back in return. In fact receiving monetary benefits for providing help is seen as a transgression in communal relationships. Aggarwal and colleagues (Aggarwal, 2004; Aggarwal & Law, 2005; Aggarwal & Zhang, 2006) adopted Clark and Mill's framework to the consumer-brand domain. From a conceptual point of view it is questionable whether the concept of communal relationships is at all adequate for consumer-brand relationships that at



their core are based on exchange and in which monetary compensation is the ultimate reason for companies to bond with consumers.

Hence, it is surprising that consumer research has so far widely neglected the extensive body of research on norms in business-to-business relationships, which since more than 20 years has successfully drawn on *Relational Exchange Theory* (RET) in explaining normative regulations of business relationships. This is especially striking as RET a) focuses on exchange relationships and b) has been conceptualized to apply to all forms of exchange between individuals or organizations (Macneil, 1985). As such, RET seems to provide a more adequate framework for research on norms in consumer-brand relationships than theories from the interpersonal domain.

#### **1.4.2. Relational Exchange Theory**

Relational Exchange Theory was developed by Macneil (1974, 1978) in response to the observations that written agreements are often intentionally left incomplete by parties in order to leave room for adaptation to changes (Milgrom & Roberts, 1992). In contrast to the (neo-) classic view, which assumes that all current and future transactions are regulated by written agreements, RET underscores the role of norms in relationships (Ivens & Blois, 2004). According to RET, agreements between parties usually contain explicit as well as implicit agreements or norms (Hadfield, 1990). Norms according to that view can be seen as expectations towards the other party's behavior (Heide & John, 1990; Lipset, 1975), as guidelines towards own behavior (Scanzoni, 1979), or as "general frame of reference, order, and standards against which to guide and assess appropriate behavior in uncertain and ambiguous situations" (Cannon, Achrol, & Gundlach, 2000, p. 184).

Norms have been shown to develop early in the relationship process (Dwyer, Schurr, & Oh, 1987) and limit the danger of opportunistic behavior on one side (Ouchi, 1980; Nohria & Ghoschal, 1990): "Because they involve expectations rather than rigid requirements of behavior, they create a cooperative as opposed to a confrontational environment for negotiating adaptations, thus promoting continuity in exchange" (Cannon, Achrol, & Gundlach, 2000, p. 184). The fact that norms are in general not discussed explicitly, and even less specified in detail but rather developed on a relatively general level however, leaves

room for an individual interpretation of a norm's content by the parties involved in exchange transactions.

According to Macneil (1985) RET as a theory applies to all forms of exchange between individuals or organizations. He assumes that exchange is not purely an economic phenomenon but characterizes all forms of social interaction. Transactions according to RET can be classified on a continuum ranging from discrete to relational exchange. Purely discrete transactions according to Macneil (1983) however constitute an exception, with most transactions having relational character.

Macneil (1980, 1983) developed ten relational norms: *role integrity*, *reciprocity*, *implementation of planning*, *effectuation of consent*, *flexibility*, *solidarity*, *the linking norms*, *creation and restraint of power*, *propriety of means* and *harmonization with the social matrix*. As these norms originally were not created for empirical purposes, they are partly overlapping. Investigating the dimensional structure of Macneil's norms using explanatory factor analysis, Ivens (2006) found two emerging factors that he termed *value-claiming* and *value-creating* norms. Due to these problems, most empirical work on Macneil's norms focuses on a subset of three to four norms (see e.g., Dant & Schul, 1992; Jap & Ganesan, 2000; Heide & Miner, 1992; Heide & John, 1992; Kaufman & Stern, 1988). Acknowledging the high interdependence of these norms, researchers have also argued for one *meta-norm* and have found empirical support for it (Heide & John, 1992).

The central role of norms in relationships according to Macneil (1978) exists because all economic exchange is conflict laden, the reason being that interests of parties involved usually diverge on several issues. RET posits that in addition to differences regarding the sources of conflict, discrete and relational exchange also vary concerning conflict resolution behavior. Parties in relations with a high degree of norm orientation should seek conflict resolution mechanisms that do not threaten the continuity of the relationship (Achrol, 1997). Such a behavior implies considering one's own and the partner's interests jointly. Under relational exchange, conflict resolution should be achieved through communication with the partner.

Concerning the effect of relational norms, Kaufman and Stern (1988) found that perceptions of unfairness of the other party's behavior were influenced by relational norms. Doney and

Cannon (1997) found a positive relationship between relational norms and trust and Jap and Ganesan (2000) report a positive relationship between norms and perceived commitment. Concerning the impact on relationship relevant behavior, Dant and Schul (1992) studied the impact of role integrity (one of Macneil's norms) on four potential conflict resolution strategies (problem solving, persuasion, bargaining, and politics) and Gundlach, Achrol, and Mentzer (1995) could show that relational norms positively influence behaviors expressing commitment. Also, the links between relational norms and relationship variables such as relationship duration (Haugland, 1996), relationship performance (Noordewier, John, & Nevin, 1990; Lusch & Brown, 1996; Bello & Gilliland 1997; Cannon, Achrol, & Gundlach, 2000), relationship quality (Gassenheimer, Calantone, & Scully, 1995; Johnson, 1999), or acquisition and operating costs (Cannon & Homburg, 2001) have been examined.

A large body of research has further investigated antecedents to the emergence of relational norms. Heide and John (1990) found that technological unpredictability decreased expectations of continuity whereas Bello and Gilliland (1997) argue for a negative influence of market volatility on flexibility. Actual commitments (Gundlach, Achrol, & Mentzer, 1995), the use of non-coercive influence strategies (Kim, 2000), specific human investments (Bello & Gilliland, 1997), and manifest opportunism have proven to positively or negatively influence the development and intensity of a number of relational norms. Key relationship marketing variables, such as trust and satisfaction with past outcomes, equally have a positive impact on the norm of long-term orientation (Ganesan, 1994).

### **1.4.3. Contributions of Article 3**

Although recent research has turned to the investigation of norms in consumer-brand relationships, several open questions have remained. Norm research in the consumer domain has applied constructs from the interpersonal domain without discussing whether these are at all applicable to brand relationships that in essence are based on exchange. This problem is amplified by the fact that these norms have not been measured in actual consumer-brand relationships (see Aggarwal 2004; Aggarwal & Law 2005; Aggarwal & Zhang 2006). Hence, whether norms do at all evolve between consumers and their brands remains an open question. In the light of the conceptual problems it is especially surprising that consumer research has so far fully neglect the impressive body of research on norms in the business-to-

business area. This research has mainly drawn on Relational Exchange Theory (RET), and has shown in numerous empirical investigations that RET norms like *solidarity*, *reciprocity* or *flexibility* do evolve in and govern business-to-business relationships.

In order to address these issues, article 3 adapted RET to consumer-brand relationships. A scale was developed to measure RET norms in consumer-brand relationships and consumer relationships with their banks were surveyed. Results showed that, RET norms did evolve in consumer-brand relationships and that these norms differed from key relationship marketing variables such as satisfaction and trust. Further, article 3 could show that, norms guided the perception of severity of critical incidents in the relationships: the higher relationships scored on RET norms, as the more severe relationship transgressions were perceived. Furthermore, RET norms influenced consumers' resolution strategies: consumers in relationships high in RET norms were more likely to choose constructive resolution strategies like voicing the problem. These results remained largely stable when taking into account key relationship marketing variables like satisfaction and trust.

Summarizing, article 3 provides evidence for the notion that consumers do form relationships with their brands that are governed by norms. These norms guide consumers' perceptions of transgressions and choice of resolution strategies and are different from key existing relationship marketing variables.

### **1.5. The Effect of Negative Information on Consumers' Attitude Strength**

When consumers receive bad news about brands in the media, how does it affect their attitudes and the strength of their attitudes? In the modern marketing sphere, with consumers' access to all kinds of different media channels and media's broad coverage of brand mishaps, product failures and service deficiencies, consumers usually learn about negative brand incidents via the media. The credibility of different media sources however varies widely and, especially with sources like the Internet, source credibility is often hard to judge. Several questions for researchers and practitioners hence emerge: does bad brand news influence consumers' attitudes even when they know that it is from a non-credible source? And what happens when people learn about that source after they have already read the news? Will the news still affect their attitudes or are consumers able to 'correct' for the lack of credibility?

### 1.5.1. Attitudes and Attitude Strength

The attitudes that consumers carry towards their brands are of pivotal relevance for marketers. A key reason for this interest in attitudes is the underlying assumption that attitudes predict consumers' behavior. However, as chapter 1.3. has already pointed out (and article 2 will in more detail) with the example of satisfaction - an attitude-like judgment - attitudes do not always translate nicely into behavior: article 2 shows only a moderate relationship between satisfaction and repurchase behavior. In fact, the finding that the predictive ability of attitudes may be limited is almost as old as attitude research itself (see LaPiere, 1934) and some scholars have subsequently questioned whether a link between attitudes and behavior exists at all (Corey, 1937; Ajzen & Fishbein, 1977). Similarly many attitude change studies in laboratory settings have shown that attitudes could often be changed quite easily (see Eagly & Chaiken, 1993; Petty & Cacioppo, 1981). On the other hand researchers have found that some attitudes can be very stable and very difficult to change. In fact Hovland (1959) as well as Hyman and Sheatsley (1947) found that most attitudes appear to change only little over the course of a lifespan. In addition, some attitudes, especially political attitudes, have been shown to be very powerful determinants of behavior (Schuman & Johnson, 1976).

As a result, social scientists started to acknowledge that attitudes could vary considerably in their strength (see e.g., Raden, 1985; Schuman & Presser, 1981). However attitude strength has long remained a vaguely defined 'metaphor' (Raden, 1985). According to most current definitions strong attitudes possess two main features: they are durable and they have impact. Accordingly Krosnick and Petty (1995, p. 3) define attitude strength as "the extent to which attitudes manifest the qualities of durability and impactfulness". Instead of conceptualizing attitude strength as a latent psychological construct with durability and strength as effect indicators, durability and strength are commonly conceptualized as causal indicators of attitude strength which is seen as a *phantom variable* (Krosnick & Petty, 1995). Hence, strength is not presumed to be a latent construct but a heuristic label attached to attitudes "as a way of efficiently noting that they possess certain characteristics" (Krosnick & Petty, 1995, p. 3).

A key determinant of attitude strength is the amount of elaboration spent on attitude relevant information. Attitudes that are based on more careful elaboration are stronger than those that

are created by more peripheral processes (e.g., accepting information without careful scrutiny because it comes from an expert; see e.g., Petty, Haugtvedt, & Smith, 1995). Two main theories have been developed to account for these two different processes: the *Elaboration Likelihood Model* (ELM; Petty, 1977; Petty & Cacioppo, 1981, 1986) and the *Heuristic Systematic Model* (HSM; Chaiken, Liberman, & Eagly, 1989). Because both propose two routes by which attitudes can be created or changed they are often summarized as *Dual Process Theories*.

### **1.5.2. Dual Process Theories**

The Elaboration Likelihood Model (ELM) has been developed by Petty and Cacioppo in the late seventies and early eighties based on Petty's doctoral dissertation (Petty, 1977; Petty & Cacioppo, 1981, 1986) and has since then generated a large number of publications in various disciplines (see Petty & Wegener, 1999 for a review). The ELM postulates two routes by which attitudes can change, the central and the peripheral route. These two routes differ in the degree of effortful processing. The central route involves extensive and effortful information processing activity aimed at scrutinizing and uncovering the central merits of the information, whereas attitude change by the peripheral route is based on low resource demanding change processes, such as heuristics (Chaiken, 1987), classical conditioning (Staats & Staats, 1958) or self-perception (Bem, 1972). When an attitude changes as a result of careful thinking (i.e., via the central route) the resulting attitude will be stronger than when it is changed by cursory thought based on a simple cue (e.g., accepting an argument because the person formulating it is perceived as an expert). Thoughtful (i.e., central) attitude changes have been shown to be more persistent over time, resistant to counter-persuasive attempts and predictive of behavior than attitudes changed by only little attitude relevant thought (for a review see Petty, 1994).

Similarly the Heuristic Systematic Model (HSM; Chaiken, Liberman, & Eagly, 1989) assumes two different processing routes, systematic and heuristic processing. Systematic processing refers to scrutinizing all informational input for its relevance to the judgment. Heuristic processing on the other hand is based on the retrieval of certain learned rules from memory (like "statements from experts can be trusted") that allow the evaluation of a message without careful processing (Chaiken et al., 1989). Like the ELM the HSM assumes that people will only exert as much cognitive effort as necessary in order to reach a certain

processing goal (Eagly & Chaiken, 1993). If achieving high accuracy is the goal, then careful scrutiny on the message is most likely when accuracy cannot be achieved by the reliance on certain cues (e.g., source credibility). Hence according to both theories, source credibility (i.e., expertise and trustworthiness of the source) plays a significant role in determining how much cognitive effort is spent on the message. It has been found repeatedly that the knowledge of high source credibility reduces the scrutiny of the arguments and leads to more shallow processing because the information is more readily accepted without elaborating on the quality of the arguments (Priester & Petty, 1995, 2003).

More evidence for the role of source credibility in preventing careful elaboration comes from research on the sleeper effect. The sleeper effect describes a delayed increase in persuasion, an effect first reported by Hovland, Lumsdaine, and Sheffield (1949) that since then has generated a large body of research. The central finding is, that a message from a non-credible source has little immediate effect on attitudes however regains an effect over time (see Kumkale & Albaraccin, 2004 for a review). This effect however only appears when the message is elaborated carefully. Knowledge of the non-credible source *before* the message has been found to prevent the sleeper effect because the knowledge of the source prevents careful elaboration of the message (Kumkale & Albaraccin, 2004; Priester et al., 1999; Pratkanis et al., 1988).

### **1.5.3. The Effect of Elaboration on Attitude Inconsistent Information on Attitude Strength**

Consumers usually hold positive attitudes towards their brands. Hence, when they encounter negative information, this is usually inconsistent with their prior attitude. A central question for marketing and an issue of considerable controversy thus has been, whether elaboration on negative inconsistent information leads to stronger or weaker overall attitudes. Traditionally research has argued that exposure to inconsistent information leads to higher elaboration on the complete information set and hence should lead to stronger attitudes (Maheswaran & Chaiken, 1991; Srull & Wyer, 1989). Alternatively researchers have shown that inconsistencies in the structure of attitudes can result in conflict of opposing attitude elements (Bargh et al., 1992; Thompson, Zanna, & Griffin, 1995). Conflict in turn has been shown to weaken the strength of attitudes (Conner et al., 1996). Hence a weakening effect of elaboration should theoretically be possible. Sengupta and Johar (2002) were first to show

such a weakening effect of elaboration on attitudes and show that the presence of a reconciliation goal determines whether inconsistent information leads to stronger or weaker attitudes. Usually consumers are motivated to reconcile conflicting attitudes in order to arrive at a consistent attitude (Maheswaran & Chaiken, 1991). In the presence of such a reconciliation goal, greater elaboration has been shown to lead to overall stronger attitudes (Jonas, Diehl, & Brömer, 1997). If however reconciliation is prevented, structural inconsistencies prevail and no consistent attitude can evolve (Sengupta & Johar, 2002).

#### **1.5.4. Contributions of Article 4**

How does negative brand information impact on the strength of consumers brand attitudes? Article 4 shows that the effect of negative information on attitude strength depends on two factors: source credibility and the time consumers become aware of the source credibility. Extending research in the line of Dual Process Theories, article 4 shows that knowledge of source credibility cannot only prevent but also increase careful elaboration on the message, when the source information is given *after* the message as opposed to *before*. This is because source credibility conveys information about how relevant (i.e., diagnostic) the processed message is for attitude formation. When consumers learn after reading the message that it was either highly relevant for attitude formation (e.g., because it came from a very credible source) or possibly biased them (e.g., because it came from a clearly non-credible source), article 4 shows that further elaboration on the message is prompted.

Article 4 further shows that the effect of this elaboration on attitude strength differs depending on whether it was prompted by a credible or non-credible source. Elaboration on attitude-inconsistent information in the light of a credible source apparently leads to the maintenance of structural inconsistencies and hence results in weaker attitudes. The reason, article 4 argues, is that receiving the source information after the message alerts consumers of the fact that the negative message they have read is valid and relevant for attitude formation. Hence, further elaboration should be aimed at maintaining the structurally inconsistent negative arguments. On the other hand, when consumers learn that the message came from a non-credible source, this should alert them to the fact that they just processed invalid information. The prompted elaboration hence should be aimed at refuting the inconsistent negative information and subsequently lead to stronger attitudes. Summarizing, article 4



shows that elaboration on negative brand information can do both, weaken as well as strengthen consumers' attitudes.

## **1.6. How Companies Should React to Negative Brand Information**

### **1.6.1. Brand Crises and their Effect on Brands**

Whereas article 4 deals with the question of how consumers react to negative brand information consumers receive over the media, article 5 deals with the company side: how should companies react when negative messages about their brands are spread in the media. Article 4 points out that such negative information can potentially harm consumers' attitudes. Article 3 shows that some consumers may decide to let their relationship deteriorate when confronted with incidents they find severe. How should companies hence react to counter such detrimental effects? Apart from an effect on consumers' attitude strength, researches have also shown that such brand crises have negative effects on market share, sales of recalled products, stock prices, purchase intentions, and sales of other company products (Pruitt & Peterson, 1986; Siomkos & Kurzbard, 1994) as well as threatening a company's reputation (Berman, 1999; Davies et al., 2003; Mowen, 1980). The devastating effect of negative brand news on their companies is partly due to the fact that negative information is perceived to be more diagnostic and informative, and weighed more heavily in consumer judgments than positive information, an effect referred to as negativity bias (Herr, Kardes, & Kim, 1991). In addition, because negative news deviates from the norm – consumers are used to positive (advertising) messages about brands - negative news is reported more frequently and more vividly by consumers (Weinberger & Lepkowska-White, 2000) as well as considered more credible than positive news spread by the company itself (Ahluwalia, Burnkrant, & Unnava, 2000). As a result, customer preferences may shift towards competing products during the recall period, and competitors often increase their advertising spending in the wake of a competing brand's crisis (Cleeren, DeKimpe, & Helsen, 2006).

Despite the increasing occurrence of brand crises and the risks for the companies involved, research on brand crises still remains scarce (Klein & Dawar, 2004). In fact, previous research has mostly relied on general strategies providing check-lists or 'six-step plans' with general recommendations like 'act quickly' and 'take responsibility' (see Turpin, 2008) on

how to deal with brand crises. In general, case studies have been used to derive conclusions about which strategies work and which do not (e.g., Chisholm, 1998; Marconi, 1997; Pearson & Mitroff, 1993; Weinberger, Romeo, & Piracha, 1991; Kurzbard, & Siomkos, 1992; Smith, Thomas, & Quelch, 1996). “This literature, however, provides little direction for understanding the problem from a theoretical perspective” (Ahluwalia, Burnkrant, & Unnava, 2000, p. 203) and few research exists developing strategies to combat marketing crises taking into account the variables that influence consumers’ perceptions and their processing of brand crisis information (Cleeren, Dekimpe, & Helsen, 2006; Ahluwalia, Burnkrant, & Unnava, 2000).

From a managerial vantage point an adequate communication response is of utmost importance. In a study by *DDB Needham* involving 2,645 consumers it was found that a company’s handling of a crisis ranked as the third most important influence on consumer purchasing, after product quality and handling of complaints (Marketing News, 1995). The importance of adequate crisis communication is further underlined by findings showing that company communication after an emergency has strong implications for the image of a company (Dawar & Pillutla, 2000). In addition, most crisis-management experts agree that it is not a matter of *if* a company will be faced with a crisis, but *when* and how well prepared executives are to weather the storm (Albrecht, 1996). The importance of an effective communicating strategy is further reinforced by the growth of so called “instant information” networks. Due to the Internet, dissatisfied employees, angry customers and other disappointed stakeholders can spread information and false facts almost instantaneously (Turpin, 2008). Hence, developing a proper communication strategy is a key challenge for companies faced with a crisis situation (e.g., Hale, Dulek, & Hale, 2005; Coombs, 2000; Cleeren, DeKimpe, & Helsen, 2006).

It was the aim of article 5 to develop an actionable framework for communication strategies based on psychological and consumer research on persuasion processes, information processing, attribution processes and attitude formation as well as marketing research on consumer reactions to product harm crises and rumors. Three key variables were identified in the literature, which should determine the choice of a successful communication strategy: *truth of the allegation*, *severity of the crisis* and *consumers’ commitment*. The three will be outlined in the following.

### **1.6.2. Truth of the Allegation**

Most research on brand crises has focused on one of two types of crises, product harm crises or rumors. Whereas product-harm crises constitute real threats to the consumer, rumors concern negative brand information based on false facts. Product harm crises are usually defined as discrete, well-publicized occurrences wherein products are found to be defective or dangerous (Dawar & Pillutla, 2000). These can result from product tampering incidents or problems inherent in the product, the latter being far more common than the former (Laufer & Coombs, 2006). Apart from the damage to a brand's reputation by a product harm crisis, these are usually followed by product recalls. During these out-of-stock situations customers may switch to competing brands which may lead to lost customers in the long run, who once changed to another brand do not return (e.g., because of a lock-in to a rival brand; Goldfarb, 2006). Getting lost customers back, may be a difficult task, especially in the case of a product-harm crisis, because consumers perceive buying a brand that has just been affected as highly risky (Pennings, Wansink, & Meulenberg, 2002). In addition, a product-harm crisis may corrode trust in the product category as a whole, leading customers to decide to stop buying from the affected product category overall because the crisis is perceived as an industry-wide problem (De Alessi & Staaf, 1994; Jarrell & Peltzman, 1985).

Rumors have been defined as “unverified information of uncertain origin which is usually spread by word of mouth” (Akande & Odewale, 1994, p. 27). Rumors become increasingly common with the advances in communication technology and many well-known companies (e.g., Procter & Gamble, McDonald's) have been the target of negative rumors, sometimes with serious consequences. As implied by the above definition, rumor is negative word of mouth (WOM) based on false facts (Kamins, Folkes, & Perner, 1997). Negative WOM has been shown to be an important determinant of consumers' choice of products (Herr, Kardes, & Kim, 1991; Reingen & Kernan, 1986). A central problem in defeating rumors is that negative information is more likely to be attributed to the qualities of the product rather than to the credibility of the transmitter, which gives the rumor more credibility (Mizerski, 1982). In addition, rumors have been shown to affect consumers independent of whether they believed them or not. Tybout, Calder, & Sternthal (1981) found that despite consumers' assertions that they disbelieved a rumor saying that McDonald's hamburgers contained worms, purchase intention and evaluations of McDonald's were adversely affected.

One might reason, that when an allegation is not justified – as is the case with a rumor - the company does not really have to do anything at all. However, not reacting to an unfounded allegation may hurt the company in some cases: “Even if management perceives the crisis as ‘unfounded’ or ‘unfair’ because of below-the-belt attacks or because they underestimate the problem at hand, years of efforts aimed at building a strong brand and reputation can be ruined in the time it takes to say ‘no comment’” (Turpin, 2008, p. 1). In some cases however refuting a negative rumor about a firm may be counterproductive, because it may serve to reintroduce the rumor in the process of discounting it (Tybout, Calder, & Sternthal, 1981). Ahluwalia, Burnkrandt, and Unnava (2000) however found that a focused approach to refutation, depending on consumers’ commitment could be effective. Hence, whether and how to best react to a rumor is further dependent on customer commitment. The central role of customer commitment is outlined in chapter 1.6.4.

### **1.6.3. Severity of the Crisis**

Several authors have stressed the central role of severity of brand crises. Crises can differ widely in their severity. For example, certain types of product failure may only involve mild inconveniences for the consumer. These may involve incidents, in which the product is not working as well as suggested in advertisements. In contrast, product harm crises usually involve more serious problems that can result in injuries, sickness and even deaths (Laufer & Coombs, 2006). Examples are unknown side-effects of pharmaceutical products as in Bayer’s anti-cholesterol drug *Lipobay* that in the late nineties in combination with other drugs had caused 59 deadly cases of a rare muscle tissue disease or the case of Ford’s *Pinto* car that due to engineering flaws led the cars’ engines to catch fire easily in accidents, resulting in 27 deaths in the seventies. Whereas these cases obviously are severe crises, ultimately severity lies in the eyes of the beholders – namely the consumers.

The role of crisis severity has been shown to be of special relevance for defensive attributions (Laufer & Coombs, 2006). The defensive attribution hypothesis predicts that when an incident is high in severity, more blame will be attributed to a potentially responsible party than when the severity of the incident is low (see Robbennolt, 2000 for a review). The reason for this is that as the consequences of an incident become more severe, the notion that they might be accidental and outside control becomes less bearable. Perceiving the incident as

more predictable by blaming it on a person or institution makes the incident seem more avoidable (e.g., by simply reducing one's interaction with the person or institution who caused the incident) than when acknowledging that it was an uncontrollable accident (Fiske & Taylor, 1991). Laufer and colleagues (2005) found in a corporate setting that, as perceptions of crisis severity increased, more blame was in fact assessed to the firm.

#### **1.6.4. Consumers' Commitment**

The concept of commitment is deeply intertwined with the concept of loyalty (Morgan & Hunt, 1994). In fact Bloemer and Kasper (1995, p. 314) argue that "true brand loyalty is brand commitment, since, brand commitment is a necessary condition for true brand loyalty to occur." By true brand loyalty, Bloemer and Kasper refer to the fact that a customer may repurchase without being committed to the brand (e.g., because it simply is the cheapest product on the shelf). Commitment has traditionally been defined as the pledging or binding of an individual to his brand choice (Kiesler, 1968) as an emotional or psychological attachment to a brand within a product class (Lastovicka & Gardner, 1978).

For consumers' reactions to negative information commitment is of special relevance. Although committed consumers have been shown to be more aware of a crisis (Dawar & Pillutla, 2000), they are also more likely to engage in biased processing (Ahluwalia, Burnkrant, & Unnava, 2000). Ahluwalia, Burnkrant, and Unnava (2000) found that commitment not only moderates the negativity effect, whereas lowly committed consumers give more weight to negative than positive information, because they perceive it to be more diagnostic, highly committed consumers do not only exhibit an absence of the negativity effect but consider positive information about the brand as more diagnostic. Consumers who are committed to a brand also counter-argue negative information about the brand, mitigating the negative effects of the information by reducing the likelihood of attitude degradation. Lowly commitment consumers however counter-argue to a lesser degree and even though they may like the brand as much as the highly committed consumers, they exhibit greater attitude change and increased attitude ambivalence upon exposure to negative information about the brand. In addition, committed consumers have been found to show more sympathy for the brand and to believe that the company deserves their help (Stockmeyer, 1996) and to be less likely to switch brands during out-of-stock situations, which is partly due to their

increased search costs because of their limited experience with other brands (Campo, Gijsbrechts, & Nisol, 2000). Hence, instead of the commonly used "mass approaches" in responding to negative publicity (see, e.g., Pearson & Mitroff 1993; Weinberger, Romeo, & Piracha, 1991) companies should consider using a targeted approach, because different response strategies are likely to be more effective for highly and lowly committed consumers. However Ahluwalia, Burnkrant and Unnava (2000) acknowledge, that the effect of consumer commitment may be moderated by severity of the crisis: when the crisis is high in severity then consumer commitment should not play a role. This is because it may be difficult even for the committed consumers to discount very severe negative information.

#### **1.6.5. Contributions of Article 5**

How should marketing managers react when negative brand information is spread in the media? In order to answer this question, a literature review was conducted. To the best of the author's knowledge no comprehensive framework has been developed yet that incorporates findings from different research streams on how people process negative information in order to arrive at recommendations for how to counter the adverse effect of a brand crisis. Based on persuasion literature, research on information processing, attribution processes and attitude formation as well as marketing research on consumers' reactions to negative brand information article 5 provides a framework, suggesting what communication strategies should be most effective. As a result of this extensive literature review the variables, truth of the allegation, severity of the crisis and consumers' commitment emerged as factors that strongly affect consumers' perceptions of the incident. They influence how much attention consumers devote to the incident, whether they counter-argue the allegations, what they attribute the crisis to and how strongly the incident affects their attitudes and attitude strength. Hence companies are well advised to adapt their response strategies to these three variables. Based on the identified three central variables, six fundamentally different crisis situations are derived and the applicability of eight different strategies discussed.

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## **2. Article 1: When Customers Think Differently: A Customer-Side Categorization Approach to Strategic Groups**

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### **2.1. Abstract**

This paper draws upon categorization theory and applies it to segmentation and strategic group research. In contrast to existing approaches that have investigated the categorizations of managers and industry experts, we investigate customers' patterns of brand categorization. Customer groups defined by their pattern of brand categorization can be conceptualized as the demand-side counterpart of strategic groups. Characterizing customer segments or strategic groups by their respective probabilities of brand categorization (brand consideration, brand neutrality, brand rejection) helps to understand the competitive structure of a market and preference barriers that exist for brands (i.e., it is very difficult for a firm to enter a segment/strategic group where its brand is rejected). These preference barriers in effect represent mobility barriers for firms and are crucial for understanding the dynamics of competition in a given market. Conceiving brand categorization as a goal-derived categorization process, we propose and show that product category goals and category-specific benefits differ across brand categorization segments. Applying our approach in the automotive industry helps to explain market phenomena that are difficult to account for with solely a traditional resource based perspective on strategic groups.

## 2.2. Introduction

When Volkswagen launched its luxury-model Phaeton in 2003, it expected annual sales of 15,000 cars in Europe alone. Although most experts rated its technical features (e.g., fit and finish, comfort, and power) at least equal to rival brands BMW and Mercedes-Benz, VW failed to sell more than a fifth of what they had expected (*Rust/Zeithaml/Lemon* 2004). Thus the question arises why VW was not able to successfully enter the market segment of luxury-car customers, despite the company's resources and the demonstrated technical quality of its product.

There is ample evidence that consumers do not consider all brands in a given market before making a purchase decision (for a review *Roberts/Lattin* 1997). Previous empirical work on how consumers may narrow down attention to a subset of brands out of a larger set of brands has developed the concept of the consideration set, the set of brands a consumer will consider in a purchase situation (e.g. *Nedungadi* 1990; *Erdem/Swait* 2004). The notion of a consideration set implies a two-stage decision process, with a consideration stage followed by an evaluation stage. Consumer choices have therefore been conceptualized and modeled as the outcome of a two-stage process of consideration set formation and conditional brand choice (e.g., *Andrews/Srinivasan* 1995; *Roberts/Lattin* 1991). Since brand consideration is a precondition for brand evaluation and choice, understanding the consideration stage in the choice process can be crucial from both a theoretical and a practical perspective. Consideration set formation has among other things been shown to impact on brand switching behavior (*Sambandam/Lord* 1995) as well as to change market share independent of brand evaluation (*Nedungadi* 1990). Specifically in today's highly competitive and crowded markets, it is likely that many brands may not even get access to consumer consideration sets (*Desai/Hoyer* 2000). In the car market of the introductory example aided brand awareness of new car buyers for most relevant competitors is on a very high level. Thus getting into the consideration sets of consumers is crucial for marketing success. It is likely that the Volkswagen Phaeton did not even manage to enter the consideration sets of its target customer segments. Therefore, the understanding of what determines consideration set composition is an important research question and can as we will show in this paper be employed to understand the structure of a market. Building on recent work (e.g., *Paulssen/Bagozzi* 2005; *Chakravarti/Janiszewski* 2003), who demonstrated that customers'

brand consideration can be conceptualized as a goal-derived categorization process, we now turn to the concept of goal-derived categorization.

### **2.3. Goal-Derived Categorization**

Based on early research on categorization processes (see *Mervis/Rosch* 1981), *Barsalou* (1991) could show that in everyday life people often create and use highly specialized sets of objects, such as ‘things to eat on a diet’ which he called ‘goal-derived categories’. Like classic taxonomic categories, goal-derived categories possess a continuum of degrees of membership ranging from typical members to typical non-members, which has been referred to as ‘graded structure’ (*Rosch* 1975; *Barsalou* 1991). A category can therefore be conceptualized as a fuzzy set with different degrees of membership and unclear category boundaries (*McCloskey/Glucksberg* 1978). Early approaches for modeling consideration set composition have used the crisp set model and investigated whether an alternative is considered or not within the choice process (e.g., *Roberts/Lattin* 1991; *Andrews/Srinivasan* 1995). Newer approaches have built on the notion that the consideration stage of the choice process can be conceptualized as a categorization process and investigated varying degrees of membership (e.g., *Viswanathan/Childers* 1999, *Wu/Rangaswamy* 2003). Similar to graded structure where typical members of a category, unclear members of a category (e.g., is a duckbill a mammal?) and non-members can be distinguished, frameworks of brand-categorization with a similar tri-partition into consideration, hold and reject set have been developed (*Laroche/Toffoli* 1999; *Brisoux/Laroche* 1980; *Peter/Olson* 2005). In addition to the brands a consumer considers in a choice situation (consideration set), brands that the consumer clearly rejects (reject set) and brands that for various reasons are neither acceptable nor unacceptable for choice (hold set) are distinguished. Already *Roberts/Lattin* (1991) had proposed that approaches that allow for different degrees of membership would possess higher process validity and more flexibility. A recent validation study of the *Brisoux-Laroche* categorization framework provided support for meaningful differentiation of brands within the different brand sets on the basis of their market share position. Specifically *Laroche/Toffoli* (1999) concluded that simply classifying a brand as being in the consideration set or not may hide considerable differences that still exist between brands. Thus the *Brisoux-Laroche* categorization framework provides a more refined measure of the

resulting graded structure of the brand categorization stage of the choice process than a mere consideration/non-consideration measure.

Concerning the determinants of graded structure for goal-derived categories, *Barsalou* (1991) hypothesized that background goals determine ideals, which in turn determine graded structure. Ideals can be defined as characteristics an exemplar should have in order to satisfy a goal connected with a category (*Barsalou* 1985). For the goal-derived category ‘things to eat on a diet’ an ideal value of the attribute, calories, would be zero. In a consumption context, these ideals are basically the benefits desired given particular background goals of a consumer or given a specific usage situation (*Desai/Hoyer* 2000; *Chakravati/Janiszewski* 2003). Consequently desired benefits determine graded structure in goal-derived categorization in a consumption context, that is consideration set formation. Benefits are defined as the personal value a consumer attaches to product or service attributes (*O’Connor/Sullivan* 1995; *Srinivasan/Park* 1997; *Ratneshwar et al.* 1999). Thus for the goal derived category ‘things to eat on a diet’ the benefit, low calories, would be particularly important and determine the degree of membership for different food products in that category. A consumer who only attaches a high importance to the benefit ‘low calories’ will construct a different goal-derived category ‘things to eat on a diet’ than a consumer who attaches high importance to both the benefits low calories and good taste. The relevance of benefits themselves is determined by salient background goals associated with the goal-derived category (e.g., the goal to lose body weight might influence the evaluation of benefits). We will apply the concept of goal-derived categorization to the consumer context in order to derive and understand competitive market structure and preference-based mobility barriers for companies.

### **2.3.1. Brand Categorization and Market Structure**

The brands that comprise an individual’s consideration set are the only one’s that are seriously scrutinized in a purchase decision. Thus the market for each consumer is restricted to his consideration set. In a given market consumers categorize brands differently (*Cooper/Inoue* 1996). For example a consumer seeking prestige and status in a car might consider a Porsche or a BMW whereas a Kia would be clearly rejected. In contrast a consumer, considering cars just as a method of transportation, might consider brands such as

Kia or Logan but would reject Porsche or BMW. A market can thus be divided into a certain number of segments in which consumers consider a distinctive subset of brands (*Cooper/Inoue* 1996). Within segments brand categorization is homogenous and across segments brand categorization is heterogeneous. Thus a market can be divided into  $K$  segments  $S_k$  ( $k = 0, \dots, K$ ) of size  $w_k$ , where  $\sum_k^K w_k = 1$  that can be conceptualized as latent types of consumers with homogeneous patterns of brand categorization (*De Sarbo/Jedidi* 1995). A method to derive these latent consumer types or segments would be a latent class analysis (see section 6.1). Latent class analysis assumes that customers belong to one or several a posteriori defined segments. Based on his or her individual pattern of brand categorization every customer can be assigned with a certain probability to each of the latent types or market segments.

On an aggregate level each market segment can also be described by the probabilities that brands are in the consideration, hold or reject set of its respective customers. Competition between goods and services exist to the extent that potential customers perceive them as substitutes at a particular purchase occasion (*Cooper/Inoue* 1996; *Siddarth/Bucklin/Morrison* 1995). Several researchers have employed consideration sets as measures of perceived substitutability to understand the competitive structure of a market (e.g., *DeSarbo/Jedidi* 1995; *Finn/Louviere* 1990). As *Ratneshwar et al.* (1999, p. 193) emphasized, consideration sets ‘... provide competitor information relevant to a comparative assessment of a firm’s resources and competencies’. This means that brands/firms that are simultaneously categorized into the consideration set by a particular customer segment possess a high degree of competition in that group or segment. Market segments based on brand categorization patterns can therefore yield insight into the competitive relations between companies and their brands in a given market. Two brands that are considered by a high proportion of customers in a segment would be intense competitors in that segment. Brands or companies can be represented in strategic groups – with intense rivalry within groups and lessened rivalry between groups (*Porter* 1979). Firms that intensely compete in a particular segment can potentially be conceived as a strategic group (*Bauer* 1991). A strategic group is therefore the supply-side analogue to the demand-side market segment. *Grover/Srinivasan* (1987) demonstrated this interrelation by simultaneously inferring strategic groups and market segments through a latent class analysis of a matrix of brand switching data. From this perspective, a strategic group is therefore (at least temporarily) sheltered from competition

because other competitors cannot readily imitate the mix of product attributes preferred by customers of a particular segment. That is, customer preferences restrict movements of companies between strategic groups and can therefore be conceptualized as mobility barriers for companies. Mobility barriers are structural forces impeding firms from freely changing their competitive position (*Hodgkinson 1997*). Mobility barriers are a corollary to the existence of strategic groups (*McGee/Thomas 1986*). They can also be conceptualized as a generalization of the concept of entry barriers, consisting of various factors that prevent members of one group from transferring or extending their membership to other groups (*Hodgkinson 1997*). In order to enter and compete within a new strategic group or segment, as in the Phaeton example, a company or brand has to move from a position of brand neutrality (hold set) or even brand rejection (reject set) into the consideration sets of these new target customers. This represents a mobility barrier that has to be overcome (see also *Mascarenhas/Aaker 1989*). Mobility barriers that restrict movements of companies between strategic groups are the counterpart to preference barriers that restrict the movement of the individual consumer between segments (*Bauer 1991, Hatten/Hatten 1987; Harrigan 1985*)

Although the topic of strategic groups has been one of the most active areas of strategic management research (*Peteraf/Shanley 1997; McNamara/Deephouse/Luce 2003*) there have been surprisingly few customer-side approaches to strategic groups (two exceptions are the studies by *Day/DeSarbo/Oliva 1987*, and *Pegels/Sekar 1989*, which are limited in scope). This is even more surprising when one notes that a customer-side approach to strategic groups seems a promising path for explaining market outcomes like the mentioned example of the VW Phaeton. VW apparently was unable to pass the mobility barrier that separated it from the luxury-car producer group/segment, despite its resources and the product's acknowledged technical features. We argue that customers' brand categorizations determine the competitive structure of a market and represent mobility barriers for companies (*Mascarenhas/Aaker 1989*). In the case of the VW Phaeton, customers' brand categorization, in this case 'rejection', may have constituted a significant mobility barrier for entering the luxury car segment. Thus an understanding of customers' brand categorization processes can provide further insights into the determinants of a market's competitive structure and its underlying mobility barriers. In the next section we develop hypotheses concerning the determinants of brand categorization for the product category cars.

## 2.4. Hypothesis Development

Individuals use products and brands to cultivate and preserve their identities. Consumer goods are capable of serving consumers in this way because of the symbolic meaning that is embedded in them (*Belk* 1988; *Leigh/Gabel* 1992; *Solomon* 1983). Therefore, consumers do not make consumption choices solely from a product's utilities, per se, but also based on their symbolic meanings (*Belk* 1988). The consumption of symbolic meaning, particularly through the use of advertising as a cultural commodity, provides individuals with opportunities to construct, maintain, and communicate identity and social meaning (*Elliott* 1997). Communication by symbolic consumption has been thought to be an important part early on in marketing research (*Levy* 1959). Consider the example of a Rolex watch: it undoubtedly communicates the time of day, but apart from that, and supposedly more importantly for typical Rolex customers, it communicates symbolic issues, such as status and self image. A number of researchers have suggested that various aspects of products and possessions contain symbolic meanings and can therefore be used to express a particular self-image (*Bearden/Etzel* 1982; *Belk* 1981; *Solomon* 1983). In other words, individuals consume products and brands for their symbolic properties as much as for their functional benefits (*Elliott* 1997; *Levy* 1959). In social psychology self presentation has been defined as the process through which people try to control the impressions other people form of them. Self-presentation is a goal-directed conscious or unconscious attempt to influence the perceptions of other people about a person (*Leary* 1995). That is if a consumers purchase a brand in a given product category primarily for its symbolic meaning than they want to consciously influence the perceptions other people have of them and self-presentation is a salient goal associated with that particular product category.

In a consumption context desired benefits given particular background goals of a consumer determine graded structure in brand categorization (*Desai/Hoyer* 2000; *Chakravati/Janiszewski* 2003). Background goals can be as abstract as a terminal value or a self-ideal. Building on *Barsalou's* (1991) research we chose to investigate a middle level of goal abstractedness that we label product category goal. The scope of a product category goal typically does not extend much beyond a product category. In light of the above said we want to investigate how the salience of the goal to use the products of a category for self-

presentational purposes determines the relevance of benefits and subsequently brand categorization. In our empirical study in the product category cars we specifically want to study the impact of the goal 'status presentation'. Thus we propose that the salience of the product category goal 'status presentation' determines the relevance of benefits for the product category, cars. Four important benefits recently found for consumers considering the purchase of cars are 'economy', 'sporty driving', 'comfort', and 'safety' (e.g., *Paulssen/Bagozzi*, 2005). If 'status presentation' is a salient goal for a customer when considering the purchase of a car, then it would be prudent for the product and advertising to communicate symbolic issues such as status or personality style. Two examples of classic status symbols in many societies are sporty cars with powerful engines, as well as large, comfortable roomy cars. Hence, we propose that to the extent that 'status presentation' is a prevalent consumption goal, then the benefits 'sporty driving' and 'comfort' will be highly relevant for consumers. Thus,

*H1: The salience of the product category goal 'status presentation' has a positive impact on the importance attached to the benefit 'sporty driving'.*

*H2: The salience of the product category goal 'status presentation' has a positive impact on the importance attached to the benefit 'comfort'.*

The salience of the goal 'status presentation' is however also likely to have a negative impact on the relevance of certain benefits. Unlike an especially sporty car with a powerful engine or a large roomy car, a particular car scoring high on economic benefits may not be as well suited for status differentiation. Specifically, because such attributes as low fuel consumption or low maintenance cost are not readily visible as a symbol for communicating to others, they are not well suited to expressing a particular self-image. Furthermore an economic car, for technical reasons, is usually small, and has an efficient, but low power consumption, and rather weak engine. Hence, we would expect that for customers with a strong salience of the goal 'status presentation' the benefit 'economy' will be perceived to be counter productive. Therefore,

*H3: The salience of the product category goal 'status presentation' has a negative impact on the importance attached to the benefit 'economy'.*



What about the benefit ‘safety’? Until quite recently, more expensive and exclusive cars provided higher levels of safety. But nowadays most cars, even very small ones, provide high levels of safety, as confirmed in published safety test findings. Therefore, having a safe car will not necessarily communicate symbolic meaning, such as status. We would thus assume that the product category goal ‘status presentation’ will have no impact on the relevance a consumer attaches to safety. Hence,

*H4: The salience of the product category goal ‘status presentation’ will have no impact on the importance attached to the benefit ‘safety’.*

Several researchers have employed consideration sets to structure a market (e.g., DeSarbo/Jedidi 1995; Finn/Louviere 1990). Cooper/Inoue (1996) proposed that consideration sets are homogenous within segments and heterogeneous across segments and that these segments can be conceptualized as strategic groups. Their study employed latent structure models with the assumption of conditional independence to determine the number and composition of segments (see also DeSarbo/Jedidi 1995). Other researchers have found that probabilistic independence of brand consideration exists for the whole market (Hauser/Wernerfeldt 1989). The present paper follows the proposition of Cooper/Inoue (1996) that market segments/strategic groups can be conceptualized as latent types of consumers with homogeneous patterns of brand categorization. Note here that we use brand categorization, where three brand sets are distinguished, rather than two (the considered and not considered sets), for brand consideration. The probabilistic independence hypothesis confirmed by Hauser/Wernerfeldt (1989) essentially states that a market is unstructured or unpartitioned. All brands in the market compete with each other proportionally to their market share, and the whole market is one class or segment. That is, the number of segments equals 1 ( $c=1$ ). The probabilistic independence hypothesis will be used as a null market structure hypothesis against which the market structure hypothesis proposed below will be tested. As a consequence,

*H5: Brand consideration is conditionally independent given  $c$  classes/segments with  $c \geq 2$ .*

To the extent that H5 is confirmed, a number of segments/strategic groups greater than one will be derived. Based on research on goal-derived categorization, we propose that the salience of the product category goal ‘status presentation’ determines the relevance of benefits for the product category cars, which in turn determines the categorization of particular car brands into ‘consideration’, ‘hold’, or ‘reject sets’. Given that different brand categorization types exist, these latent types should differ with respect to the salience of the product category goal and the importance of benefits. Different salience of the product category goal and different relevance of benefits results in unique patterns of brand categorization and are consequently the reason for the existence of distinct segments/strategic groups, where these are defined as latent consumer types with homogenous patterns of brand categorization. Thus,

*H6: The relevance of benefits differs across latent brand categorization types.*

*H7: The salience of the product category goal ‘status presentation’ differs across latent brand categorization types.*

## **2.5. Method**

### **2.5.1. Setting**

The automotive industry was chosen as an appropriate study context in light of the high product involvement with strong non-functional attributes and implications (*Johnson et. al.* 1997) as well as the high decision complexity that characterize automotive purchases relative to many other goods (*Kardes et. al.* 1993). Due to these characteristics consideration set formation constitutes a distinct stage of the decision process and is more deliberative than in many other product categories (*Sambandam/Lord* 1995). Given the initial example of the VW Phaeton and also the fact that the product category, car, is particularly well suited for symbolic consumption purposes, we consider the automotive market as an appropriate setting for testing our hypotheses. As explained above, focus on a particular setting is also relevant for hypothesis specification. Given that we want to investigate brand categorization, we need to select respondents with purchase experience in that category. Therefore, only respondents were interviewed who possessed a new (i.e., not previously owned) car purchased within the

last four years. This selection was necessary to assure that respondents were familiar with the product category and could meaningfully answer the brand categorization questions described below.

### **2.5.2. Data and Descriptives**

A total of 1247 respondents were personally interviewed. The survey was conducted by a major German market research company. A quota sampling based on car ownership was employed to select respondents who fulfilled the above mentioned recruitment criteria. Quotas to recruit respondents (car owners who purchased a new car within the last four years) were based on the percentage of brand registrations within the last four years prior to the survey. The characteristics of the sample can be described as follows: people interviewed were on average 41.8 years old ( $SD=12.6$ ), living on average in a 2.6 person household ( $SD=1.1$ ) and having on average 0.7 children ( $SD=0.87$ ) and 1.5 cars ( $SD=0.62$ ).

### **2.5.3. Construct Operationalization**

Brand Categorization: We applied the framework for brand categorization validated by *Laroche/Toffoli* (1999). Respondents had to check brands from a list of 25 brands that they knew (awareness set). They were asked: ‘Which of the brands you know would you consider in a future purchase?’ (consideration set), and ‘Which model do you think of in particular?’ Respondents were then asked to indicate which of the known brands they would not consider at all in a future purchase (reject set). To measure uncertainty, the so-called ‘foggy’ set, they were asked: ‘Which brands are you not sure whether you should consider in a purchase, because you do not know these brands well enough?’. In the last question of this section, respondents were asked to check those brands that they knew well enough, but would neither consider nor reject in a future purchase (hold set).

Benefits: Respondents were asked to rate the importance of 18 different benefits for the purchase of a new car that were taken from a study in the automotive context by *Paulssen/Bagozzi* (2005). The lead-in question was phrased as follows: ‘Suppose you would buy a brand new car in the next couple of days. What importance would the following aspects

have for your personal decision for a new automobile? You can distribute between 1 and 5 points per aspect. The more important an aspect is for you personally, the more points you should distribute'. The response format was a 5 point scale that ranged from totally unimportant (1 point) to absolutely important (5 points). We tested the model with the four benefit dimensions 'safety', 'sporty driving', 'comfort' and 'economy', proposed by *Paulssen/Bagozzi* (2005) with a confirmatory factor analysis (CFA) for our sample. The fit of the model was excellent with  $\chi^2(15) = 24.54$  ( $p = 0.06$ ), RMSEA = 0.024, and CFI = 1.00. Thus the four-dimensional benefit model generalizes to our sample and will be employed in our analyses. Furthermore the four benefit dimensions display discriminant and convergent validity (see Table 2-8 in Appendix).

*Product category goal:* Respondents were asked two questions to measure the salience of the goal 'status presentation' in the product category, cars. The questions were phrased in a four-point Likert format with a scale ranging from 'I totally agree' to 'I totally disagree'. The two statements to measure the salience of the product category goal 'status presentation' were phrased as follows, 'For me a car is a means to express my personality and my individuality' ( $M = 2.61$ ,  $SD = 0.97$ ) and 'The car I drive should express my position in society' ( $M = 2.07$ ,  $SD = 0.97$ ). All lambda (factor loading) values are significant and substantial in our models.

## **2.6. Results**

In analyzing the data we conducted two major steps. First we tested hypothesis 5 and conducted a latent class analysis with brand categorization data. Since we had sparse data additional parametric bootstrap simulations were conducted to decide on the number of classes. In a second step we performed multi-group analysis. As a precondition for meaningful group comparisons we assessed tau-equivalence of constructs across strategic groups. Then we tested the relations between product category goal and benefits as proposed in hypothesis 1 to hypothesis 4 and whether these relations are invariant across strategic groups. In a last step of multi-group analysis we tested whether the latent means of product category goal and benefits differ across strategic groups as proposed in hypothesis 6 and hypothesis 7.

### 2.6.1. Latent Class Analysis with Brand Categorization

First we test the proposition that segments/strategic groups can be conceptualized as groups of customers with homogenous patterns of brand categorization by use of a latent class analysis. *Forman* (1984) recommends as a minimum requirement for latent class analysis that the number of cases should be greater than the number of cells. If we distinguish the five categories or sets from the *Brisoux/Laroche* (1980) framework of brand categorization, then the minimum requirement of a ratio of one between cells and cases would allow for only four brands as indicators of the latent market structure variable. From a practical point of view, the differences of brands in the unawareness set, foggy set, and hold set are not large. Brands in these three sets are neither considered nor rejected in a purchase decision. The position against those brands is neutral, although for different reasons, because they are unknown (unawareness set), not known well enough (foggy set), or because they are neither acceptable nor unacceptable for a purchase (hold set). In principle it would be desirable to use brand categorization indicators with five levels. But in order to include a reasonable number of brands as indicators of the latent market structure variable in the model, the required sample size would be prohibitively large. Therefore in the present study, the number of levels is reduced to three, and the unawareness set, hold set, and foggy set are treated as one single level of brand categorization. A contingency table with 6 indicators each measured at three levels would contain 729 cells. Thus the six brands with the highest share of brand consideration were retained for the analysis. These brands were Audi, BMW, Ford, Mercedes-Benz, Opel, and Volkswagen. The restriction to six brands as observed indicators of the latent class variable will not deliver a complete picture of the market, per se. However, the purpose of this analysis is to demonstrate the applicability of our approach to the analysis of strategic groups. Cases with missing values were deleted. The remaining 836 cases satisfy the above mentioned minimum requirement. Since 411, or 56% of the cells in the table were empty we have sparse data. Table 2-1 shows the non-bootstrapped fit measures for an exploratory latent class analysis with different class sizes.

**Table 2-1: Non-Bootstrapped Measures of Fit for the Latent Class Model**

Model	Df	G <sup>2</sup>	P	RC	P	$\chi^2$	p	AIC	BIC
<b>1 Class</b>	716	1852	0.00	2338	0.00	3112	0.00	10880	10993
<b>2 Class</b>	703	1308	0.00	1457	0.00	1756	0.00	10338	10456
<b>3 Class</b>	690	929	0.00	960	0.00	1098	0.00	9985	10165
<b>4 Class</b>	679	813	0.00	857	0.00	1000	0.00	9894	10135
<b>5 Class</b>	670	713	0.09	729	0.039	841	0.00	9821	10124
<b>6 Class</b>	659	641	0.60	657	0.43	757	0.00	9774	10139

Test of Hypothesis 5: One hundred samples of random starting values were evaluated prior to each model estimation to avoid local optima. Again the one-class model is essentially a test of the hypothesis that brand categorization of the 6 regarded brands is probabilistically independent. Considering the degree of sparseness in our data a test of this hypothesis with chi-square based statistics is problematic (*Langeheine/Pannekoek/van de Pol* 1996). However, the values of the chi-square based goodness of fit measures show that the independence model does not fit the data at all. The five-class model is the first model where the log-likelihood ratio (G<sup>2</sup>) is non-significant, and the Read-Cressie (RC) statistic is only marginally significant. For the six-class-model, both statistics are highly non-significant. The Pearson's chi-square test is, for both the five- and the six-class models, also non-significant. The BIC favors a five-class model, whereas the AIC favors a six-class model.

Parametric bootstrap simulations were conducted to get a bootstrapped  $\alpha$  (see Table 2-2). Following the recommendation of *Langeheine/van de Pol/Pannekoek* (1997), 1000 bootstrap samples were evaluated. Bootstrap  $\alpha$ 's for the three statistics already show an adequate fit for the five-class model. Thus, considering parsimony and fit, the five-class model is favored, and H<sub>5</sub> can be accepted and the null market structure hypothesis can be rejected. The percentage of subjects correctly allocated in the five-class model (85%), and the lambda measure of association (0.79) confirms the five class solution, compared to the two, three and four class solution where those values are lower. Predictability is more certain for the five class solution.

**Table 2-2: Bootstrapped Measures of Fit for the Latent Class Model**

Model	Number of bootstrap samples	p(G <sup>2</sup> )	p(RC)	p(χ <sup>2</sup> )
2 Class	1000	0.00	0.00	0.00
3 Class	1000	0.00	0.37	0.57
4 Class	1000	0.02	0.35	0.42
5 Class	1000	0.32	0.64	0.61
6 Class	1000	0.74	0.85	0.80

Thus five consumer types with homogeneous patterns of brand categorization of the six brands included in the latent class analysis were identified. Table 2-3 shows the class-specific probabilities for the observed variable brand categorization of the six brands. We have looked at three levels of categorization. The minus sign stands for the reject set, zero indicates neutrality towards the brand (i.e., the foggy set, hold set, and unawareness set), while the plus sign signifies that the brand is considered in a purchase decision (e.g., in segment/group 1, the probability of rejecting an Audi is 0.64 and the probability of considering Audi is 0.19).

**Table 2-3: Class Size and Class-Specific Probabilities for the Five-Class Model**

Segment/ strategic groups		1			2			3			4			5		
Size		0.24			0.15			0.06			0.28			0.28		
Set		–	O	+	–	O	+	–	O	+	–	O	+	–	O	+
Brand	Audi	.64	.17	.19	.57	.18	.25	0	0	1	.04	.39	.57	.04	.67	.29
	BMW	.91	.08	.01	.34	.07	.59	.04	.05	.91	.02	.22	.76	.14	.60	.26
	Ford	.34	.34	.32	.94	.01	.04	.23	.21	.55	.45	.50	.05	.06	.54	.40
	MB	.83	.12	.06	.25	.08	.67	.11	0	.89	.07	.28	.65	.33	.54	.13
	Opel	.27	.31	.43	.91	0	.09	.10	.06	.84	.32	.59	.09	.02	.49	.49
	VW	.18	.28	.55	.83	.07	.10	0	0	1	.14	.56	.3	.02	.44	.53

“O” = neutrality toward the brand (i.e., the foggy set, hold set, and unawareness set), “–” = the reject set, and “+” = consideration set.

*Interpretation of Segments/Groups:* In segment/group 1 the brands BMW, Mercedes-Benz and to a lesser extent Audi are clearly rejected with probabilities ranging from .64 to .91, whereas the brands Ford, Opel and VW are considered with probabilities of .32, .41 and .55, respectively. This segment is labeled ‘volume brands only segment’ since only volume brands are considered and premium brands are clearly rejected in this segment. Segment 1 has a size of 24% of the sample. Segment 2 shows an approximately reversed pattern of brand categorization as segment 1 and is consequently labeled as the ‘luxury brand segment’. Interestingly, the probability of rejecting Audi is more than twice as high as the probability of considering Audi in the luxury brand segment. Analogously, segment 4 is labeled the ‘upscale segment’ since also brands like Audi and VW are considered next to the luxury brands BMW and Mercedes-Benz. Segment 4 is labeled ‘volume brand segment’ since predominantly but not only volume brands are considered. Consumers in segment 3 consider all brands except Ford with probabilities approaching .9. Customers in this segment possess large consideration sets and thus not as pronounced preferences as the other segments. Thus this segment is labeled ‘indifferent segment’. Overall the two premium brands BMW and Mercedes-Benz as well as the three volume brands VW, Opel and Ford display a very similar pattern of competition in the five segments. Audi’s pattern of competition mirrors its position between the premium and the volume brands but possesses stronger similarities with the two premium brands.

Our hypothesis,  $H_5$ , and the underlying proposition that market segments/strategic groups can be defined as groups of consumers with homogeneous brand categorization patterns was confirmed, against the alternative hypothesis of probabilistic independence of brand categorization. On the one hand, our results provide a picture of the competitive structure of a market. On the other hand, we can assign each respondent to a segment and therefore could in principle characterize our segments with supplemental demographic variables. Analogous to Grover/Srinivasan (1987), we simultaneously infer the competitive structure of a market with market segments and strategic groups through a latent class analysis of brand categorization data. However, we go beyond mere description and test hypotheses to explain the origins and emergence of competitive market structure in the following section.



### 2.6.2. Product Category Goals and Market Structure

Five market segments were identified through latent class analysis. Segment 3, which was labeled the ‘indifferent segment’, has a size of only 6% of the sample, or after accounting for missing values of only 45 respondents. Results from simulation studies indicate that with samples smaller than 50, the probability of an improper solution steeply increases in structural equation models (*Boomsma* 1982). Thus segment 3 is not included in the multiple group analysis that follows when testing the remaining hypotheses.

Before further comparisons can be meaningfully tested we have to verify that our measures are tau-equivalent across groups. First a model with a similar factor pattern is tested. The model shows a very good fit with  $\chi^2 (104) = 140.99$  ( $p = 0.01$ ), RMSEA = 0.044, and CFI = 0.98 and the hypothesis of congeneric equivalence cannot be rejected. The next step in multiple group analysis is the test of tau-equivalency. The chi-square difference test,  $\chi_d^2 (3) = 3.64$ ;  $p > .05$ , shows that this hypothesis can be accepted both for the product category goal status presentation and for the benefit dimensions ( $\chi_d^2 (12) = 14.15$ ;  $p > .05$ ).

**Table 2-4: Results of Multiple Group Analysis**

<b>Model</b>	<b>Goodness of Fit</b>	<b>Test of Hypothesis</b>
<b>M1: Equal factor Pattern</b>	$\chi(104, N_1=197, N_2=119, N_4=230, N_5=207) = 140.99$ $p = 0.0092$	---
<b>M2: <math>\Lambda_x</math> invariant <math>\Lambda_y</math> pattern similar</b>	$\chi(107, N_1=197, N_2=119, N_4=230, N_5=207) = 144.63$ $p = 0.0090$	<b>M<sub>2</sub> - M<sub>1</sub></b> $\chi^2_d(3) = 3.64$ $p > .05$
<b>M3: <math>\Lambda_x</math> invariant <math>\Lambda_y</math> invariant</b>	$\chi(119, N_1=197, N_2=119, N_4=230, N_5=207) = 158.78$ $p = 0.0087$	<b>M<sub>3</sub> - M<sub>2</sub></b> $\chi^2_d(12) = 14.15$ $p > .05$
<b>M4: <math>\Lambda_x</math> invariant <math>\Lambda_y</math> invariant <math>\Gamma</math> invariant</b>	$\chi(131, N_1=197, N_2=119, N_4=230, N_5=207) = 176.63$ $p = 0.0049$	<b>M<sub>4</sub> - M<sub>3</sub></b> $\chi^2_d(12) = 17.85$ $p > .05$

Test of Hypotheses H1-H4: In order to test the influence of category goals on benefits, the equivalence of the gamma-matrix across groups is tested. The hypothesis underlying this test is that the causal influence of the product category goal on the importance of benefits is invariant across segments. The hypothesis can be accepted with  $\chi^2_d(12) = 17.85$ ;  $p > .05$ . Moreover, three hypotheses concerning relations between the product category goal and the benefit dimensions (H1, H2, H3) can be confirmed (see Table 2-5). The gamma-coefficients are all significant at  $p < .05$ . The explained variance of the benefit constructs is 3% for ‘comfort’, 35% for ‘economy’, and 28% for ‘sporty driving’. As hypothesized, the salience of the product category goal, status presentation, increases the importance of the benefits, sporty driving and comfort, but decreases the importance of the benefit economy. Contrary to H4, a significant negative relationship between the product category goal and the benefit ‘safety’ exists. The more a consumer pursues the goal ‘status presentation’ for the product category cars, the lower will be the importance of the benefit ‘safety’ in a purchase decision. It is possible that consumers with a high salience of the goal ‘status presentation’ take ‘safety’ for granted or perceive it as a hygiene factor (Herzberg 1966) and consequently put relatively

less emphasis on this benefit in a purchase decision. The explained variance for ‘safety’ is 27%.

**Table 2-5: Estimated Coefficients and T-Values for the Product Category Goal Model**

	$\xi_1$ Status presentation
$\eta_1$ Safety	$\gamma_{11} = -0.52^*$ $t = -10.30$
$\eta_2$ Economy	$\gamma_{21} = -0.48^*$ $t = -9.02$
$\eta_3$ Comfort	$\gamma_{31} = 0.09^{**}$ $t = 2.16$
$\eta_4$ Sporty Driving	$\gamma_{41} = 0.44^*$ $t = 8.53$

\*  $p < .05$

*Test of Hypotheses H6-H7:* In order to test Hypotheses 6 and 7 a confirmatory factor analysis with mean structures was run. Since we have already established true score equivalence of the five constructs across groups, the next step is to test for intercept invariance. The hypothesis can be accepted with  $\chi^2_d(15) = 17.81$ ;  $p > .05$ . Thus we can conclude that the intercepts are invariant across groups (see Table 2-6). Next we formally test whether the latent means of the benefit constructs and the product category goal differ significantly across strategic groups by constraining the latent means to be equal across segments. Hypothesis 6 can be accepted for the three benefit dimensions economy ( $\kappa_2$ ), comfort ( $\kappa_3$ ), and sporty driving ( $\kappa_4$ ). Only the latent mean for the benefit safety ( $\kappa_1$ ) does not significantly differ across segments. Thus 3 of 4 predictions are confirmed for Hypothesis 6. Safety is of equal relevance across customer segments defined by their patterns of brand categorization. The product category goal ( $\kappa_5$ ) is also not invariant across segments ( $\chi^2_d(3) = 49.40$ ;  $p < .05$ ). As proposed in Hypothesis 7, the salience of the product category goal ‘status presentation’ differs significantly across segments with homogenous patterns of brand categorization. Our results support the notion that the salience of the product category goal ‘status presentation’ determines the relevance of benefits. Moreover market segments, defined as consumer types with homogeneous brand categorization patterns, differ with respect to the salience of the

product category goal as well as the relevance of category-specific benefits. The causal interrelations between product category goal and benefits are invariant (i.e., generalizes) across segments. The different salience of product category goals determine the salience of benefits, and thereby brand categorization, in a consumption context. Different patterns of brand categorization, in turn, determine the structure of the market.

**Table 2-6: Confirmatory Factor Analysis with Mean Structures**

Model	Goodness of Fit	Test of Hypothesis
<b>M1: <math>\Lambda_x</math> invariant</b>	$\chi(119, N_1=197, N_2=119, N_4=230, N_5=207) =$ 158.78 $p = 0.0087$	---
<b>M2: <math>\Lambda_x</math> invariant <math>v_x</math> invariant</b>	$\chi(134, N_1=197, N_2=119, N_4=230, N_5=207) =$ 176.59 $p = 0.0080$	<b>M<sub>2</sub> - M<sub>1</sub></b> $\chi^2_d(15) = 17.81$ $p > .05$
<b>M3: <math>\Lambda_x</math> invariant <math>v_x</math> invariant ..... <math>\kappa_1</math> invariant</b>	$\chi(137, N_1=197, N_2=119, N_4=230, N_5=207) =$ 180.82 $p = 0.0087$	<b>M<sub>3</sub> - M<sub>2</sub></b> $\chi^2_d(3) = 4.23$ $p > .05$
<b>M4: <math>\Lambda_x</math> invariant <math>v_x</math> invariant ..... <math>\kappa_2</math> invariant</b>	$\chi(137, N_1=197, N_2=119, N_4=230, N_5=207) =$ 197.06 $p = 0.0006$	<b>M<sub>4</sub> - M<sub>2</sub></b> $\chi^2_d(3) = 20.47$ $p < .05$
<b>M5: <math>\Lambda_x</math> invariant <math>v_x</math> invariant ..... <math>\kappa_3</math> invariant</b>	$\chi(137, N_1=197, N_2=119, N_4=230, N_5=207) =$ 305.67 $p = 0.00$	<b>M<sub>5</sub> - M<sub>2</sub></b> $\chi^2_d(3) = 129.08$ $p < .05$
<b>M6: <math>\Lambda_x</math> invariant <math>v_x</math> invariant ..... <math>\kappa_4</math> invariant</b>	$\chi(137, N_1=197, N_2=119, N_4=230, N_5=207) =$ 270.27 $p = 0.00$	<b>M<sub>6</sub> - M<sub>2</sub></b> $\chi^2_d(3) = 93.68$ $p < .05$
<b>M7: <math>\Lambda_x</math> invariant <math>v_x</math> invariant ..... <math>\kappa_5</math> invariant</b>	$\chi(137, N_1=197, N_2=119, N_4=230, N_5=207) =$ 225.99 $p = 0.00$	<b>M<sub>7</sub> - M<sub>2</sub></b> $\chi^2_d(3) = 49.40$ $p < .05$

*Interpretation of the resulting market structure:* The global fit measures of the multiple group analysis with structured means are  $\chi^2$  (137) = 176.59 ( $p = 0.01$ ), RMSEA = 0.038, and CFI = 0.99 and indicate a very good model fit. The means of the latent variables in the first segment, the ‘volume brands only segment’, were constrained to zero as a baseline comparison (see Table 2-7). The salience of the goal, status presentation, is highest in the ‘luxury brand segment’, but almost as high in the ‘upscale segment’. The difference between the ‘volume brands only segment’ and the ‘volume brands segment’ is not significant. Thus the higher the probability of considering luxury brands, and the lower the probability of considering volume brands, the higher the degree to which respondents pursue the goal of using a car for status presentation purposes. Consumers in both the ‘luxury brand segment’ and the ‘upscale segment’ put a higher relevance on ‘comfort’ and ‘sporty driving’, but less relevance on ‘economy’, than the ‘volume brands only segment’ and the ‘volume brands segment’.

**Table 2-7: Factor Means for the Four Segments in the Product Category Goal Model**

segment/ strategic group	$\xi_1$ : Safety	$\xi_2$ : Economy	$\xi_3$ : Comfort	$\xi_4$ : Sporty driving	$\xi_5$ : Status presentation
<b>1: Volume brands only segment</b>	0 constrained	0 constrained	0 constrained	0 constrained	0 constrained
<b>2: Luxury brand segment</b>	-0.09 $t = -1.48$	-0.79* $t = -7.54$	0.20* $t = 2.55$	0.77* $t = 8.64$	0.42* $t = 5.26$
<b>4: Upscale segment</b>	-0.06 $t = -1.07$	-0.70* $t = -9.29$	0.22* $t = 3.29$	0.64* $t = 7.82$	0.36* $t = 5.42$
<b>5: Volume brands segment</b>	-0.11 $t = -1.93$	-0.07 $t = -0.94$	- 0.03 $t = -0.39$	0.27* $t = 3.18$	0.09* $t = 1.44^{**}$

\*  $p < .05$

Apart from a picture about market segments, the proposed approach can also provide information about the possible strength of mobility barriers. Both Audi and VW have attempted to enter the luxury brand segment in the last few years. Table 2-3 shows that whereas only 25% of customers in this segment clearly consider Audi, 18% are at least

undecided (segment 2 in Table 2-3). By contrast, VW is only considered by 10% of the customers in this segment, plus only 7% of customers in this segment are undecided. There is a marked difference between whether brands that are not considered are rejected or are in a neutral position. It is much more difficult for a brand to move from the 'reject set' into the 'consideration set' than it is to move from a neutral position into the 'consideration set'. In the former case the brand has to overcome strong preferences against considering its products. Whereas 83% of the customers in the 'luxury brand segment' definitely reject VW, only 57% reject Audi. It is apparent that VW has much harder prospects in competing in the strategic group of luxury-car producers than Audi, because winning the 'clear-reject' customers of the associated luxury target segment will be connected with much higher marketing efforts, and thus sunk costs, than winning the 'undecided' customers to buy one's product. The main difference between the luxury brand segment and the upmarket brand segment 4 is the barrier to entry for competitors such as VW, Opel, and Ford in the form of customers' preference barriers. Structuring markets with customers' brand categorization thus makes it possible to structure a market into segments as well as to map the degree of entry barriers for brands into these segments in the form of preference barriers. Furthermore analyzing benefit importance and product category goal salience helps to understand the determinants of those preference barriers. Customers in the 'volume brands only segment' and the 'volume brands segment' differ in the emphasis they put on the benefit 'sporty driving' in purchase decisions. Thus the 'volume brands segment' is more vulnerable to competition from premium brands than the 'volume brands only segment' (where the benefit sporty driving is less important), as indicated by their respective pattern of brand categorization. This result is plausible because up-market brands are better able to provide the benefit of sporty driving (e.g., through making available a powerful engine and special suspension system). In the 'volume brand segment', the probability of considering luxury brands, such as BMW or Mercedes-Benz, is higher, and the probability of rejecting these brands is clearly lower than in the 'volume brand only segment'.

## **2.7. Discussion**

An important stream of research on strategic groups has focused on managers' mental models of strategic groups within their industries (*Peteraf/Shanley 1997; Osborne/Stubbart/Ramaprasad 2001*). The underlying idea of this stream of research is to

form groupings of firms based on managers' cognitions (*Reger/Huff* 1993). From a psychological point of view this stream of research investigates how managers categorize companies into different groups. In this paper, we took a look at the other side of the coin and investigated how customers categorize brands. By drawing on research on categorization processes, we have offered a theoretical grounding for investigating a customer-side approach to strategic groups and mobility barriers. Building on *Cooper/Inoue* (1996), we proposed that market segments/strategic groups can be defined as types of consumers with homogeneous patterns of brand categorization. Using latent class analysis we could show that brands are not uniformly distributed throughout the competitive space. Instead we have groups or brand categorization types with intense rivalry between certain brands but lessened rivalry with other brands that are mainly considered and thus competing in other groups. Our approach provides both a picture of the competitive structure of a market and market segmentation by allowing one to assign each respondent to a brand categorization type. A look at the derived segments/strategic groups (see Table 2-3) can help managers understand who they are competing against and how this competition varies within segments/strategic groups.

Although some researchers have concluded that 'the literature is replete with sources of mobility barriers' (*Lee/Lee/Rho* 2002, p. 731), this is the first study to investigate the strength of mobility barriers derived from customers' brand perceptions. Structuring markets based on customers' brand categorization patterns allows the characterization of market segments by the probability of brand consideration, brand rejection, and brand neutrality. We have demonstrated that such a characterization allows for the estimation of demand-side preference barriers that act as mobility barriers for firms. The outcome was a clear picture of preference barriers and hence – important for strategic group research - mobility barriers. Apart from estimating the possible strength of a demand-side mobility barrier, our approach can also serve to get a better picture of what kind of efforts have to be undertaken to overcome the identified mobility barriers. We conceptualized brand categorization as a goal-derived categorization process and showed that the salience of a product category goal 'status presentation' determined different category-specific benefits. We further showed that, according to the salience of the goal 'status presentation' different patterns of brand categorization evolved. These different patterns of brand categorization determine the competitive structure of a market. Based on this reasoning we could show that brand categorization types differ with respect to the salience of the product category goal as well as the relevance of category-specific benefits. Since goals and benefits determine

categorizations and hence mobility barriers, firms willing to overcome those mobility barriers will need to address those prevalent customer goals and corresponding benefits. To enter the segment/strategic group where ‘status presentation’ is a highly salient consumer goal, a firm will need to put efforts into satisfying this goal with its products. Higher spending in marketing and advertising may be needed. For the case of the VW Phateon, such an analysis might have yielded the insight that only with a different brand name could this goal be achieved. Toyota has shown the success of such a strategy with its Lexus: the image of Lexus’ independent brand is not hurt by the identity with the corporate group of Toyota because brand name and dealerships are kept separate. Based on our results, we would have predicted that VW would have to overcome a strong mobility barrier before entering the luxury brand segment or strategic group of luxury car producer. Strategic group research has been criticized for its inability to explain how and why competitive structures in industries come to develop (*Hodgkinson 1997*). In our approach, the strategic groups could be differentiated by the salience of the goal, status presentation and corresponding benefits for their respective customers.

Our research endeavour is not without limitations. Future research should investigate the simultaneous impact of multiple goals on brand categorization (e.g., *Ratneshwar/Pechmann/Shocker 1996*). Other possible determinants such as income or dealer proximity were not investigated (see e.g., *Punj/Brookes 2001* for recent work on pre-decision constraints in consideration set formation). The restriction to six brands as observed indicators of the latent class variable will, as has been argued above, not deliver a complete picture of the market, per se. A larger data set would have allowed to include more brands in the model. However, the purpose of this analysis is to demonstrate the applicability of our approach to the analysis of strategic groups. Another future extension would be to investigate brand categorization on a model level. In order to apply a latent class model to a data set with model level data instead of brand level data, an excessive sample size would be required. Furthermore brand categorization can vary with time and context. Thus different competitive structures might exist for different consumption contexts or situations. This could be a promising extension of our approach for fast-moving consumer goods markets. The equation of market segments and strategic groups may be criticized as an oversimplification. However, we argue that our approach is consistent with widely shared claims for research on strategic groups. Our approach is in concert with *Hatten/Hatten’s (1987)* definition of strategic groups as companies whose actions are relevant for each other. A company’s sole adoption of similar



strategies does not yet mean that this has relevance for other companies in a strategic group, as could be seen in the VW example.

From a managerial perspective the identification of mobility barriers is of utmost importance for a company's strategy definition for a number of reasons. Structuring a market based on customers' brand categorization can give insight into which segments/strategic groups can be entered without too much effort in terms of advertising, developing a brand image, and establishing distribution channels. It can also highlight the danger of sunk costs when preference barriers are high and successful market entry may be at risk. Further, the approach supports the assessment of the danger of potential competition through new competitors and can be part of a strategic scanning system. In the short run, BMW and Mercedes-Benz should not be too concerned if let's say Opel attempts to enter the luxury segment with a new model, because the preference barrier is very high. More than 90% of the customers in this segment reject Opel. This obvious mobility barrier is difficult to explain from a resource based perspective focusing on firm skills and key strategic variables. However, the behavioral perspective presented herein can provide an explanation for these preference-based mobility barriers. Looking again at the example of VW's Phaeton, the reason for customers' rejection will not be found in technical features but rather in customers' brand perceptions: 'And by all accounts the objective attributes of the Phaeton...are competitive with those of other luxury marques. Unfortunately, the company's brand is defined not so much by its exacting producers as by its customers. It has virtually no brand equity among luxury buyers.' (*Rust/Zeithaml/Lemon* 2004). Or in the words of Axel Mess, head of Audi of America: 'It could be the best car, but I still would not buy it because it has the VW logo and because I have to go to a VW dealership where the salesmen are used to selling Jettas and Golfs' (*Kiesel* 2004). If VW's managers thought they could overcome the mobility barrier separating VW from the luxury-brand segment, then our results suggest that customers apparently thought differently.

## 2.8. References

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## 2.9. Appendix

**Table 2-8: Scale Validation for Benefits**

Item	Construct	$\lambda$ -value (factor loading)	Construct reliability	Mean	SD
Absolutely safe driving properties	Safety	0.76 (24.53)	$\rho_1 : 0.81$	0.69	0.64
Highest possible safety in accidents	Safety	0.80 (27.80)		0.70	0.63
100 % reliability	Safety	0.73 (23.59)		0.77	0.62
Extremely sporty driving properties	Sporty Driving	0.79 (24.73)	$\rho_2 : 0.69$	-0.42	0.89
Extremely powerful engine	Sporty Driving	0.67 (20.89)		-0.37	0.94
Extremely low cost of maintenance	Economy	0.79 (23.65)	$\rho_3 : 0.76$	-0.31	1.07
Extremely low fuel consumption	Economy	0.77 (21.72)		0.09	0.87
Very comfortable car	Comfort	1.00 (-)	$\rho_4 : na$	0.13	0.68

**Table 2-9: Correlations (Below Diagonal), Chi-Square Difference Tests (Above Diagonal)**

Constructs	$\xi_1$	$\xi_2$	$\xi_3$	$\xi_4$
$\xi_1$	--	151.88	226.30	421.00
$\xi_2$	-0.46	--	96.02	221.41
$\xi_3$	0.12	-0.64	--	223.93
$\xi_4$	0.06	-0.01	0.00	--

### **3. Article 2: Satisfaction and Repurchase Behavior in a Business-To-Business Setting: Investigating the Moderating Effect of Manufacturer, Company and Demographic Characteristics**

Together with Marcel Paulssen

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#### **3.1. Abstract**

Even though the notion that high customer satisfaction leads to high repurchase rates is one of the fundamental assumptions of relationship marketing, empirical evidence concerning the satisfaction-retention link is mixed. Studies who investigated the satisfaction-retention link have shown that the relationship is weak and that customers repeatedly defect even though they state to be highly satisfied. Recent research has successfully been able to identify variables that moderate the link between satisfaction and repurchase behavior and can partially explain the weak overall relationship. However, almost all of previous research has been conducted in single brand, business-to-consumer contexts. In contrast to these studies, we investigate the differential effect of the manufacturer on the satisfaction-retention link in a business-to-business setting. Results show, that the satisfaction-retention link is moderated by demographic characteristics of a decider in a buying center, characteristics of the purchasing company and the manufacturer. Moreover several effects of demographic and company characteristics are specific to the manufacturer. Implications of the results for relationship management and customer lifetime value are discussed.

### **3.2. Introduction**

The question of how customer satisfaction translates into repurchase behavior lies at the heart of relationship marketing. Previous studies, however, have found that satisfaction alone is a weak predictor of repurchase behavior. The relationship is largely dependent on moderating variables (see e.g., Mittal & Kamakura, 2001; Seiders et al., 2005). However, most studies have investigated the satisfaction-retention link in business-to-consumer relationships (Homburg, Giering, & Menon, 2003). Therefore, the investigated moderating variables have been largely specific to business-to-consumer contexts. However, there can be no doubt that understanding how satisfaction translates into retention is also of key relevance for business-to-business marketing. Even though stark differences exist between business-to-business and business-to-consumer marketing (e.g., Jackson & Cooper, 1988) previous research has demonstrated that consumer concepts may be successfully transferred to the business-to-business context (Cooper & Jackson, 1988; Durvasula et al., 1999). In line with the theme of the 22nd Annual IMP Conference, “Opening the network”, we investigate the satisfaction-retention link in a business-to-business context by building on research and models that have been developed in a business-to-consumer context. By doing so, we not only show the viability of building on consumer research models for business-to-business research but also find that the conclusions from our research have relevance for the whole field of marketing: previous research has found that findings on moderating effects of customer characteristics from different studies were equivocal and hard to reconcile (Seiders et al., 2005). One reason for this may be that all of these studies investigated moderating variables in a single company setting. The potential moderating role of the brand or manufacturer has so far been neglected. Unlike previous studies we conducted a multi-manufacturer study, investigating the moderating role of manufacturer and whether the effects of other moderators on the satisfaction-retention link are manufacturer-specific. Further, we provide one of the first studies to investigate the satisfaction-retention link in a business-to-business setting. This enables us to analyze the impact of company characteristics, in addition to the demographic characteristics of the decider in a buying center, as potential moderators of the satisfaction-retention link.

### 3.3. Theoretical Background

Many executives seem to trust their intuitive sense that high customer satisfaction will eventually translate into higher loyalty and with it ultimately into improved company performance. Thus achieving high customer satisfaction has become a central focus of corporate strategy for most firms (Homburg, Koschate, & Hoyer, 2005; Honomichl, 1993). However, “despite the claim that satisfaction ratings are linked to repurchase behavior, few attempts can be found that relate satisfaction ratings to actual repurchase behaviour” (Mittal & Kamakura, 2001, p. 131). That the validity of this assumption is all but given, is nicely illustrated by Reichheld (1996), who reports that while around 90% of industry customers report to be satisfied or even very satisfied, only between 30% to 40% actually do repurchase. Some researchers have consequently even gone as far as to question the usefulness of satisfaction measures in general (e.g., Reichheld, 2003). Apparently, current knowledge fails to fully explain the prevalence of satisfied customers who defect and dissatisfied customers who do not (Bendapudi & Berry, 1997; Ganesh, Arnold, & Reynolds, 2000; Jones & Sasser, 1995; Keaveney, 1995). One reason for that is that the relationship between satisfaction and retention is not a simple linear one, but moderated by several different variables. Oliva, Oliver and MacMillan (1992, p. 84) stated that “the response function linking [...] satisfaction to customer response may not operate as is frequently assumed because the complexity of the relationship may be underestimated”.

Several studies have since investigated the effect of moderating variables on the satisfaction-retention link. However the great majority of empirical studies that examined direct and moderated satisfaction-repurchase effects measured repurchase intentions instead of objective repurchase behavior (Seiders et al., 2005). Several problems in interpretation arise through the use of a satisfaction measure and an intentional measure of loyalty in the same survey: common-method variance may inflate the relationship. Mazursky and Geva (1989) found that satisfaction and intention ratings were highly correlated when measured at the same time but had no correlation when measured at two different points in time. Additionally both ratings may be influenced by the same response bias thereby leading to spurious correlations (Arnold, Feldman, & Purbhoo, 1985; Zedeck, Kafry, & Jacobs, 1976). Studies of Mittal and Kamakura (2001) as well as Seiders et al. (2005) show, that the results concerning moderators of the satisfaction- intention link cannot simply be extrapolated to the

satisfaction-retention link. Seiders et al. (2005) for example could show that for low involvement there is virtually no relationship between satisfaction and actual repurchase behavior but a very strong positive relationship between satisfaction and repurchase intentions. Finally a central argument for investigating repurchase behavior is that both from a scientific and a managerial standpoint it is real repurchase behavior that we aim to understand. However especially in a business-to-business context, studies on the satisfaction-loyalty link are scarce (Homburg, Giering, & Menon, 2003) and studies on the satisfaction-retention link do not exist. One of the rare investigations has been provided by Homburg, Giering and Menon (2003), who investigated the impact of relational norms on the satisfaction-loyalty link but not on the satisfaction-retention link.

A further shortcoming of the current literature is that most studies have focused on moderating variables in the business-to-consumer context (Homburg, Giering, & Menon 2003). But do demographic characteristics of the buyer, like age, that have been found to moderate the satisfaction-retention link in a consumer setting also serve as moderators of the satisfaction-retention link in a business-to-business setting? Further, do company characteristics of the buying firm, like size of the company or branch of industry moderate how satisfaction translates into repurchase as has been suggested by Homburg and Giering (2001). Those are questions that should be of interest for business marketers but have largely been neglected by prior research.

Overall the results of prior research concerning moderators of the satisfaction–retention link are not clear-cut. Summarizing the state of knowledge in this area, Seiders et al. (2005, p. 26) state that “Although prior research points to several variables that may moderate the satisfaction repurchase relationship, empirical results are equivocal and difficult to reconcile”. A major limitation of previous research on moderating effects of the satisfaction retention link has been that it solely investigated customers of one company (e.g., Mittal & Kamakura, 2001; Seiders et al., 2005; Homburg & Giering, 2001; etc.). However, it is possible that the partially equivocal findings of previous research are due to the fact, that results are manufacturer/brand-specific, meaning that the effects may change in size and direction for customers of different manufacturers or brands in a given product category.

### **3.4. Model Development**

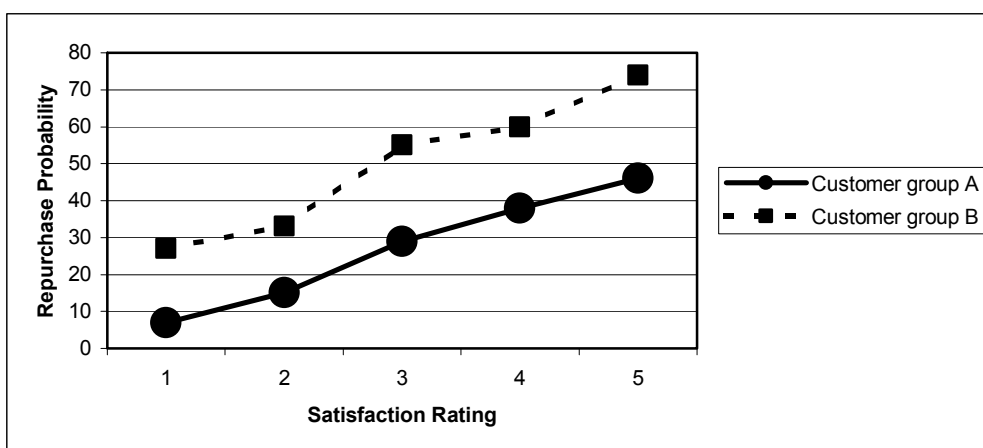
We will investigate the relationship between the two constructs satisfaction and retention and its potential moderators in a business-to-business setting. Following Homburg, Koschate and Hoyer (2005) we define customer satisfaction as the result of a cognitive and affective evaluation, where an actually perceived performance is matched with a comparison standard. In a business-to-business context customer satisfaction can then be conceptualized as a judgment that a long-term relationship with a supplier provides a desired level of purchase-related fulfillment. We adopt a cumulative interpretation of customer satisfaction and conceptualize it as a global evaluation based on the experience with a supplier and its products over time (Homburg, Koschate, & Hoyer 2005). In contrast to loyalty, which is often operationalized as the customer's self-reported likelihood of engaging in future repurchase, retention measures actual and not only intended repurchase behavior. Thus retention is directly related to sales figures and therefore of high managerial relevance.

In order to investigate the satisfaction-retention link in a business-to-business setting we will build on a model developed by Mittal and Kamakura (2001) who proposed two mechanisms that can introduce variability into the satisfaction retention link: satisfaction thresholds and response bias. In the following section we will explain both mechanisms and review the findings on moderating effects of customer demographics based on these two mechanisms in business-to-consumer contexts. We will translate this model to a business-to-business context and develop propositions about the influence of demographic characteristics of a decider in a buying center and the characteristics of the purchasing company on the satisfaction-retention link. We will further extend existing research by incorporating the manufacturer as an additional moderator in the model. Of course extant research in business-to-business relationships has identified other determinants of retention or switching behavior. A significant body of research has examined switching cost as a determinant of loyalty and retention (e.g., Jones, Mothersbaugh, & Beatty, 2002; Burnham, Frels, & Mahajan, 2003). Customers might be trapped in a so-called hostage situation: their satisfaction is on a low to medium level, but high switching cost prevent them from switching their current supplier (Jones & Sasser, 1995). Other research has examined social relationships (Wathne, Biong, & Heide, 2001), attractiveness of alternatives (Bendapudi & Berry, 1997) as well as inertia (Bozzo, 2002; White & Yanamandram, 2004) as determinants of loyalty and retention in

industrial business relationships. Similar to all the studies cited above we do not attempt to develop a comprehensive model of customer retention, but rather want to answer the focused research question of whether demographic characteristics of the decider in a buying center, company characteristics and the manufacturer moderate the satisfaction-retention link. From an application standpoint our variables have the advantage to be easy to measure and to likely be available in customer databases. Thus segmenting and targeting of customers based on study results will be much simpler than with the above-mentioned determinants of satisfaction-retention link (inertia, switching cost, perception of alternatives etc.).

### 3.4.1. Satisfaction Threshold

Customers may vary systematically in their tolerance levels or thresholds toward repurchase that are not fully captured in their satisfaction ratings. A satisfaction threshold can be interpreted as a “reservation value” (Mittal & Kamakura, 2001, p. 134), i.e. the value that is associated with the customer’s next best alternative other than repurchasing. This evaluation will not only be based on the satisfaction with the previously purchased manufacturer but also the expected satisfaction with potential alternative manufacturers. A customer with a lower “reservation value” or low satisfaction threshold will be more likely to repurchase at the same satisfaction level as a customer with a higher “reservation value” and better alternatives (Mittal & Kamakura, 2001).



**Figure 3-1: Differential Satisfaction Thresholds**

Graphically differences in satisfaction thresholds manifest itself in differences in elevation. In Figure 3-1 customer group B has a lower satisfaction threshold than customer group A, i.e. at the same level of satisfaction repurchase probability is higher for customer group B than for customer group A. Mittal and Kamakura (2001) could show that the satisfaction thresholds or reservation values differ for customers with different demographic characteristics. They suggested for example, that older customers may be more likely to remain loyal to a manufacturer due to their accumulated investments in and knowledge about the manufacturer, whereas younger customers may in contrast be more willing to search for information and thus switch manufacturers. Subsequently they could show that younger customers have a higher satisfaction threshold than older customers. The open question here is whether the demographic characteristics of a decider in a buying center moderate the satisfaction-retention link in a business-to-business context. We would assume similar effects for the business-to-business context and hence propose:

*P1: Satisfaction thresholds vary with demographic characteristics of a decider in a buying center*

In the following, demographic characteristics of a decider in a buying center are meant, when we speak of demographics. In contrast, demographic characteristics of the purchasing company (e.g., number of employees, branch of industry etc.) are subsequently referred to as company characteristics. Already Homburg and Giering (2001, p. 59) stated that, “organizational characteristics of the buying firm as well as relational characteristics of the buyer – supplier relationship might have a strong moderating influence on the relationship between satisfaction with a supplier and loyalty”. Following their proposition we would expect company characteristics such as company size to have an impact on the satisfaction threshold in a business-to-business context. Existing research for example shows that larger companies are likely to cooperate more intensively with their vendors and tend to work with fewer vendors (Bowman & Narayandas, 2001). Thus, with increasing size, companies are likely to have fewer alternatives to consider. All else being equal, the reservation value and thus the satisfaction threshold for larger companies should be lower than for smaller companies. We thus propose:

*P2: Satisfaction thresholds vary with company characteristics*



We further propose that customers of different manufacturers will differ on their existing alternatives and their evaluation: e.g., customers of manufacturers that have a relatively unique positioning in a market and are able to offer specific product benefits, relationship benefits, cost advantages that are not easily matched by the competition will certainly have less alternatives to consider than customers of an undifferentiated supplier (Uлага & Eggert, 2006). In terms of Jackson's (1985) distinction between "lost-for-good" and "always-a-share" situations, the manufacturer with a relative unique positioning would have a higher likelihood to be in "lost for good" situations. The undifferentiated manufacturer in contrast has a higher likelihood for "always-a-share" relationships characterized by weak bonds and strong price competition (Freytag & Clarke, 2001; Uлага & Eggert, 2006). Thus the reservation value and therefore the satisfaction threshold for customers of a differentiated supplier would be lower than those of customers from an undifferentiated supplier. We thus propose:

*P3: Satisfaction thresholds vary with the manufacturer*

Moreover, threshold effects of company characteristics could also be moderated by manufacturer. Assume that a certain manufacturer offers a product that is better able to serve specific needs of a certain branch of industry than other manufacturers. Customers of that specific branch of industry would have lower thresholds for that manufacturer only, compared to customers from other industry branches that do not desire those specific features. In the industry we examined in our empirical study, the commercial vehicle market, several manufacturers offer branch of industry specific solutions. Thus, it is for example likely that satisfaction threshold effects of branch of industry are manufacturer-specific.

*P4: Satisfaction thresholds of company characteristics vary with the manufacturer*

For car purchases, Mittal and Kamakura (2001) could show that women place a higher importance on service quality at the dealership than men. Another study in an automotive context by Homburg and Giering (2001) also confirmed that women's purchasing behavior is more strongly influenced by their evaluation of personal interaction processes than men's. Compared to men, women are more involved in purchasing activities (Slama & Tashlian, 1985), and pay more attention to the consulting services of the sales personnel (Gilbert & Warren, 1995). Assuming we would have similar differences in a business-to-business

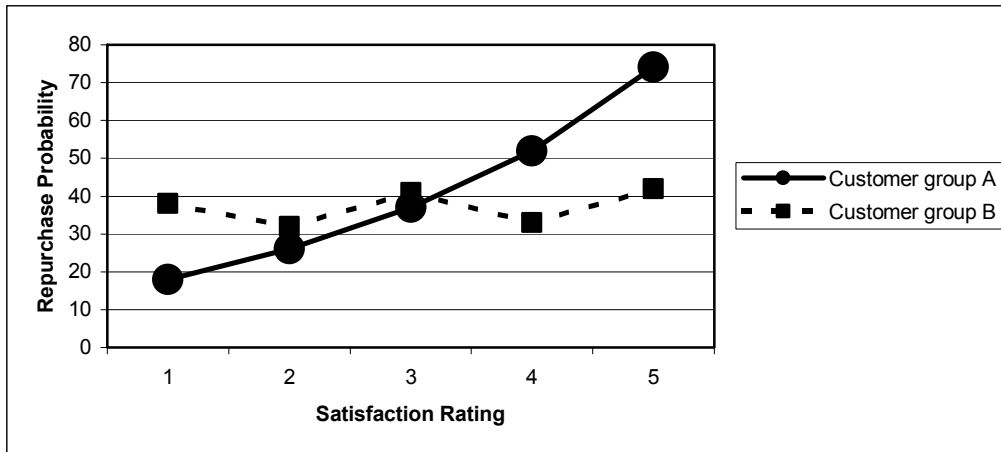
context, female customers of a commercial vehicle manufacturer with a unique positioning on service quality at its dealerships should have lower thresholds than male customers specifically for this manufacturer. This means that if sex is investigated as a moderating variable for a manufacturer that does not place a high emphasis on service quality, chances are that the satisfaction thresholds for women would be substantially higher (assuming other manufacturers offer higher service quality). We thus propose:

*P5: Satisfaction thresholds of demographic characteristics of a decider in a buying center vary with the manufacturer*

Propositions four and five would explain why findings about moderating variables have been partially equivocal: they may be manufacturer-specific. However none of the studies investigating the satisfaction-retention link in a recent review by Seiders et al. (2005) has investigated this potential moderating effect of manufacturer even though already Mittal and Kamakura (2001) have called this one of the major limitations of their study and a promising area for subsequent research.

### **3.4.2. Response Bias**

Satisfaction ratings may not be solely influenced by the true satisfaction level but are error prone measures of a true latent satisfaction. Ratings may be too easy or too harsh compared to customers' true satisfaction (Arndt & Crane, 1975; Dwyer, 1980; Kalwani & Silk, 1982). This may be explained by differences in consumer socialization (see Zuckermann, 1981) and role theory (see Hoffman & Hurst, 1990) that may predispose some consumers to engage in "yes-saying" more than others.



**Figure 3-2: Differential Response Bias**

Graphically, differences in response bias are depicted in differences in the slope. In Figure 3-2 customer group B has a stronger response bias effect than customer group A. Hence the relation between satisfaction and retention is stronger for customer group A and satisfaction ratings translate better into repurchase behavior than for customer group B. Response bias may be due to differences in socialization as well as motivation (e.g., interest in participation or fatigue). For example due to generation differences older customers might be more likely to generally engage in yes-saying when asked to rate their satisfaction. Mittal and Kamakura (2001) found response bias to differ with demographic characteristics. We do not assume that a respondent's response style to satisfaction questions differs fundamentally between a consumption situation and a business situation. Thus we expect to observe similar response biases that have been observed in consumer studies like e.g., for older customer in a business context. We therefore propose:

*P6: Response bias varies with the demographic characteristics of a decider in a buying center*

In addition we assume that response bias will vary for customers of different manufacturers: e.g., a customer of a premium manufacturer might be a harsher rater due to higher expectations towards the product than a customer of a low-cost manufacturer. Further, as Kalwani and Silk (1982) have shown response bias is inversely related to the cognitive resources devoted to the questionnaire. Thus systematic differences in relationship or involvement for different manufacturers (e.g., Martin, 1998) could translate into differential

attention paid to the satisfaction questionnaire and thus manufacturer-specific response bias. Furthermore differences in response bias for customers of different manufacturers may arise because manufacturers differ in how frequently they conduct market research surveys with their customers. An often contacted and surveyed customer is likely to respond differently and possibly with more fatigue than a customer who is rarely being contacted for consumer surveys. We hence propose:

*P7: Response bias varies with the manufacturer*

Further, response bias effects of demographic characteristics could also be moderated by the manufacturer. That is, how harsh a customer of a certain age group rates may depend on his expectations towards the product and could be manufacturer-specific. Or building on the above stated relationship involvement may also vary systematically with both demographic characteristics and with the manufacturer. Andersen (2006) for example has shown that manufacturer involvement can be enhanced through web-based brand communities only for customer groups with certain demographic characteristics. We therefore propose:

*P8: Response bias of demographic characteristics of a decider in a buying center varies with the manufacturer*

As we cannot think of a rationale explaining why variables like branch of industry would influence how easy or harsh a customer rates on a satisfaction scale, we do not expect company characteristics to influence response bias here.

In the following we will formalize the above presented propositions by building on and significantly expanding a model by Mittal and Kamakura (2001) who only investigated demographic characteristics as moderators of the satisfaction-retention link: the probability that a customer  $J$  with a latent (true) satisfaction level  $S_J$  with products from a manufacturer  $M_J$  repurchases from the same manufacturer is equal to the probability that his or her true satisfaction is greater than a given threshold  $\mu_J$ :

$$P[Y_J = 1 (= \text{repurchase})] = P[S_J > \mu_J] \quad (1)$$

We assume the threshold  $\mu_J$  to vary with demographic characteristics  $Z_{jk}$  (from 1 to K),

company characteristics  $C_{Jt}$  (from 1 to T), the manufacturer  $M_J$  and the interactions of  $Z_{Jk}$  and  $C_{Jt}$  with  $M_J$ . The threshold is therefore regressed on the demographic and company characteristics, the previously purchased manufacturer and their interactions:

$$\mu_J = \gamma_0 + \sum_{k=1}^K \gamma_{zk} Z_{Jk} + \sum_{t=1}^T \gamma_{ct} C_{Jt} + \gamma_{ml} M_{Jl} + \sum_{k=1}^K \gamma_{zmk} Z_{Jk} M_J + \sum_{t=1}^T \gamma_{cmt} C_{Jt} M_J + \eta_J \quad (2)$$

where  $\eta_J$  is a Gumbel-distributed random error,  $\gamma_0$  describes the influence of factors independent of differences in thresholds due to demographic, company characteristics and manufacturer,  $\gamma_{zk}$  the influence of demographic characteristics,  $\gamma_{ct}$  the influence of company characteristics,  $\gamma_m$  the influence of manufacturer,  $\gamma_{zmk}$  the influence of the interaction of demographic characteristics and manufacturer and  $\gamma_{cmt}$  the influence of the interaction of company characteristics and the manufacturer. This threshold defines the true satisfaction level necessary for the customer to be indifferent between switching or repurchasing from the same manufacturer.

The observed satisfaction rating  $O_J$  is an indicator of the true underlying satisfaction  $S_J$ , therefore we regress the latent satisfaction on this indicator:

$$S_J = \beta_J O_J + \varepsilon_J \quad (3)$$

where  $\varepsilon_J$  is a Gumbel distributed random error and  $\beta_J$  is the response bias, representing the translation of true satisfaction into observed satisfaction ratings. As noted above, we assume that the response bias depends on demographics, manufacturer and their interaction:

$$\beta_J = \delta_0 + \sum_{k=1}^K \delta_{zk} Z_{Jk} + \sum_{k=1}^K \delta_{zmk} Z_{Jk} M_J + \delta_{ml} M_{Jl} \quad (4)$$

where  $\delta_0$  describes the influence independent of demographic characteristics, the manufacturer and their interaction,  $\delta_{zk}$  describes the response bias due to demographic characteristics and  $\delta_m$  the response bias due to manufacturer.  $\delta_{zmk}$  describes the influence of the interaction between response bias due to demographics and manufacturer. By combining these, we arrive at the following formula where the difference between the independent and identically Gumbel-distributed random errors  $\eta_J$  and  $\varepsilon_J$  is logistically distributed:

$$P[Y_J = 1] = P \left[ \eta_J - \varepsilon_J < \left( \left( \delta_0 + \sum_{k=1}^K \delta_{zk} Z_{Jk} + \delta_{ml} M_{Jl} + \sum_{k=1}^K \delta_{zmk} Z_{Jk} M_J \right) O_J - \right. \right. \\ \left. \left. \gamma_0 - \sum_{k=1}^K \gamma_{zk} Z_{Jk} - \sum_{t=1}^T \gamma_{ct} C_{Jt} - \gamma_{ml} M_{Jl} - \sum_{k=1}^K \gamma_{zmk} Z_{Jk} M_J - \sum_{t=1}^T \gamma_{cmt} C_{Jt} M_J \right) \right] \quad (5)$$

### 3.5. Method

#### 3.5.1. Research Setting

We investigated repurchases of commercial vehicles in a non-contractual business-to-business setting. Several manufacturers compete in this market. Customers rely on different vendors and usually possess mixed fleets with vehicles from different manufacturers. They change their allocation of purchase shares according to the record of the manufacturer's performance. Similar to other studies in the business-to-business domain, a key informant procedure was used (e.g., Morgan & Hunt, 1994; Rindfleisch & Moorman, 2001). Prior to the survey respondents were screened whether they were responsible for fleet management. Respondents who were not responsible for fleet management were asked for the name and telephone number of the fleet manager and were excluded from the interview. In addition, each respondent was asked whether he or she was responsible for purchase decisions of new vehicles and supplier selection. Respondents who did not participate in purchase decisions and supplier selection were also excluded from the interview. In general, companies' purchase decisions are multiperson processes, and different participants have different roles (e.g., Sheth, 1973; Webster & Wind, 1972). However, this study investigates straight rebuy or modified rebuy purchasing situations (companies already owned commercial vehicles). These more routine types of buying situations are often carried out by small buying centers (Anderson et al., 1987), and decisions are more likely to be made autonomously (Sheth, 1973). Considering the type of purchase and in line with extant literature (e.g., Morgan & Hunt, 1994; Rindfleisch & Moorman, 2001; Bowman & Narayandas, 2004) the key informant approach was deemed to be an acceptable choice.

### 3.5.2. Data Collection

The data is part of a large multi-client study of new commercial vehicle buyers in a major European market. All relevant commercial vehicle manufacturers in this market participated in this survey and provided name and telephone number of customers that have just purchased (a) new vehicle(s) to a commercial research company. The commercial research company conducted telephone interviews with these new commercial vehicle buyers. Respondents were randomly sampled from the customer database that consisted of the addresses and telephone numbers of new vehicle customers provided by the sponsoring manufacturers. Interviewers asked respondents to participate in a survey of new vehicle owners' perceptions and experiences of the purchase process. As stated above, prior to the main survey respondents were screened to assure that they were responsible for fleet management and that they participated in purchase decisions of new vehicles. Surveys averaged 25 minutes in length. Overall 4997 respondents were interviewed. The response rate was 27,76 %, which is acceptable, compared to other published studies in a business-to-business setting (e.g., Morgan & Hunt, 1994; Homburg, Giering & Menon, 2003). The sample distribution on branch of industry, number of employees and fleet size was compared with aggregate data provided by the manufacturers association for the respective study year. No notable discrepancies were found. Even though only respondents who stated that they were responsible for fleet management and participated in the purchase decision were eligible for the survey, an initial question block was administered to measure the degree of participation in the purchase decision. Of the surveyed respondents 91.6% stated that they were very involved in the purchase process, whereas only 8.4% stated that they were only somewhat involved. Furthermore 88,2 % of the respondents stated that they participated in trade talks at dealerships and 95.8 % of the respondents stated that they were involved in day-to-day running of the vehicles. Furthermore respondents had to indicate the type of purchase/buying decision. 70 (1.4%) of the respondents conducted a new buy and the purchased vehicle was their first commercial vehicle. 1662 (33.25%) respondents conducted a modified rebuy in that the new vehicle was used for fleet expansion and not replacing an existing vehicle. Finally 3265 (65.33%) respondents replaced an existing vehicle with the new vehicle. However 941 (18.83%) of those respondents replaced a vehicle from a different category (e.g., a passenger car, an estate vehicle or a truck) with a commercial vehicle. For replacement purchases where a vehicle from a different category was replaced with a commercial vehicle other factors than the satisfaction with the replaced vehicle may have

impacted the purchase decision (i.e. many of the replaced passenger cars, estate vehicles or trucks come from brands or manufacturers that do not offer commercial vehicles). The remaining 2324 (46.50%) respondents conducted straight rebuys, in which a commercial vehicle was actually replaced by a commercial vehicle with the same specifications and were retained for the analysis. Those who replaced a vehicle with one from the same manufacturer were considered loyal, those who did replace the vehicle with one from another manufacturer were not considered as loyal. After listwise deletion of cases with missing values on the model variables 1493 cases remained for the analysis. In order to ensure that the data adequately represented the actual market situation data was weighted by vehicle registration data of the respective market and year. The high level of self-stated involvement in the purchase process as well as the fact that we only analyzed straight repurchases further supported the choice of the key informant approach.

### **3.5.3. Sample Characteristics and Measures**

The survey contained various themes around the new vehicle purchase: exact specification of the vehicle (i.e. number of seats), specification of the previous vehicle (i.e. make, model), intended usage (i.e. which goods will be transported), payment condition (i.e. discounts, source of credit), satisfaction with the purchase process, alternatives considered, reason for purchase/rejection, company characteristics and demographics of the respondent. Satisfaction with the replaced vehicle was measured on a Likert-scale ranging from 1 = “completely dissatisfied” to 5 = “completely satisfied”. The question read as follows: “Please think about your ownership experience with your previous vehicle. Overall how satisfied have you been with your previous vehicle”. When the new vehicle was from the same manufacturer as the replaced vehicle a customer was considered to be loyal. Table 3-1 gives an overview of the sample distribution of the demographics variables as well as the company characteristics that we used in the model. Additionally the average satisfaction ratings and average repurchase-probabilities are shown for each level of the model variables. The following demographic and company characteristics were surveyed:

Demographic characteristics: *sex, age and consideration of other manufacturers* (whether other manufacturers than that of the replaced vehicle were considered prior to purchase).



Company characteristics: *branch of industry, number of employees, fleet size* (only commercial vehicles), *average length of vehicle ownership* (for the whole commercial vehicle fleet).

Manufacturer of the replaced commercial vehicle: *previous manufacturer*, this variable was collapsed to three categories (in order to have sufficient cell sizes), the first two representing the two major manufacturers in the market and the third category containing all other manufacturers.

**Table 3-1: Sample Characteristics of the German CV-Market**

Variables			Percentage	Average Satisfaction Rating	Percentage Repurchasing
Demographic characteristics	Sex	Male	87,6	3,67	65,8%
		Female	12,4	3,70	67,8%
	Age	18-35 years	24,5	3,61	58,3%
		36-45 years	33,6	3,60	64,5%
		46-55 years	25,6	3,72	68,5%
		56 years and more	16,3	3,86	76,2%
	Consideration of further manufacturers	Yes	58,2	3,60	56%
		No	41,8	3,78	79%
Company characteristics	Branch	Manufacturing Industry	8,6	3,65	66,3%
		Retail	16,4	3,62	65,9%
		Construction/ Handcrafts	49,8	3,67	66,3%
		Service	18,0	3,73	65,4%
		Else	7,3	3,77	65,5%
	Number of employees	1-9	52,1	3,67	66,1%
		10-50	36,4	3,71	64,3%
		51 and more	11,5	3,61	71,5%
	Fleet size (commercial vehicles)	1	31,7	3,70	65,9%
		2-9	57,6	3,66	65,1%
		10-	10,7	3,71	71,8%
	Average length of ownership (in years)	-3	37,4	3,64	74,6%
		4-7	40,4	3,58	61,6%
		8 and more	22,2	3,91	59,9%
Manufacturer	Previous manufacturer	Mercedes-Benz	19,6	3,64	73,5%
		Volkswagen	31,2	3,93	69,7%
		Other	49,2	3,45	58,4%

N=1493

We used logistic regression analysis to predict repurchase. Specifically we conducted a stepwise logistic regression and estimated seven different models. Model selection and

interpretation is based on the omnibus likelihood ratio chi square tests for the different variable sets entered in each step as well as the Akaike Information Criterion (AIC) which penalizes less parsimonious models<sup>1</sup> (see e. g. Franses & Paap, 2004).

In model 1 (AIC = 1,238) we included only satisfaction as independent variable. Although becoming significant, the model containing satisfaction alone hardly does a better job at correct classification (67,3%) than the model containing only the constant (66,1%). In model 2 we included all possible threshold effects of customer, company characteristics and manufacturer (in terms of the model estimates satisfaction thresholds are captured by the main effects) (AIC = 1,154). The highly significant omnibus likelihood ratio chi square test indicates that at least some of the investigated main effects are different from zero. In model 3, threshold effects (main effects in terms of the model) moderated by previous manufacturer (AIC = 1,145) were included. Again the highly significant omnibus likelihood ratio chi square test allowed to clearly reject the null-hypothesis that the effect of all manufacturer-moderated threshold effects are zero. Response bias effects (interaction with satisfaction in terms of the model) for demographics and previous manufacturer were included in model 4 (AIC = 1,149). Here the null hypothesis of the omnibus test could not be rejected. The response bias effects of both manufacturer and demographics are not significantly different from zero. In model 5 we subsequently included also the moderated response bias effects of demographics by previous manufacturer resulting in our proposed model. This model resulted in the best model fit with the smallest AIC-value (AIC = 1,144). Furthermore the highly significant omnibus likelihood ratio chi square test clearly indicates that the moderated response bias effects of demographics by manufacturer are different from zero. In order to test our proposition that company characteristics would not have a significant influence on response bias we estimated two additional models, that contained response bias effects of company characteristics in model 6 (AIC = 1,152) and also the moderated response bias of company characteristics by manufacturer in model 7 (AIC = 1,159). Both models resulted in higher AIC-values. The explanatory power of model 6 and model 7 in terms of Nagelkerke's R-square and the percentage of cases correctly predicted did only marginally increase by including the additional interaction effects compared to model 5. Furthermore the omnibus

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<sup>1</sup> Several other information criteria exist, such as the Bayesian information criterion (BIC) or the consistent Akaike Information criterion (CAIC). As "there is no clear answer as to which criterion if any should be preferred", from a decision-theoretic perspective the choice should depend on the purpose of the model (Cameron and Trivedi, 2005, p 279). As the purpose of the here proposed model is to better understand the link between satisfaction and repurchase by incorporating moderating variables we chose to use the AIC, which less severely penalizes model size than CAIC and BIC.

likelihood ratio chi square test for both the interactions between satisfaction and company characteristics in model 6 and the three-way interaction between satisfaction, company characteristics and manufacturer of the previous vehicle in model 7 are not significant. Thus for both model 6 and model 7 we cannot reject the null hypotheses that the estimated effects are zero. These results confirm that our proposed model, model 5, possesses the best fit to the data. This model was therefore retained and interpreted.

**Table 3-2: Model Iterations German CV-Market**

M	Variables	Chi-square	df	Delta	Sig.	-2log-likelihood	Nagelkerke R Square	Percent correct pred.	AIC
	Constant							66,1	
1	SAT	67.11	1			1845,74	0,061	67,3	1,238
2	SAT, DEM, COM, MAN	225.24	18	158.13	0.00	1687,61	0,194	71,8	1,154
3	SAT, DEM, COM, MAN, DEM*MAN, COM*MAN	298.72	48	73.48	0.00	1614,13	0,251	72,8	1,145
4	SAT, DEM, COM, MAN, DEM*MAN, COM*MAN, SAT*DEM, SAT*MAN	306.89	55	8.17	0.318	1605,96	0,257	72,7	1,149
5	SAT, DEM, COM, MAN, DEM*MAN, COM*MAN, SAT*DEM, SAT*MAN, SAT*DEM*MAN	334.57	65	27.69	0.002	1578,28	0,278	74,4	1,144
6	SAT, DEM, COM, MAN, DEM*MAN, COM*MAN, SAT*DEM, SAT*MAN, SAT*DEM*MAN, SAT*COM	342.30	75	7.73	0.655	1570,55	0,284	74,5	1,152
7	SAT, DEM, COM, MAN, SAT*COM, DEM*MAN, SAT*DEM, SAT*MAN, SAT*DEM*MAN, COM*MAN, SAT*COM*MAN	373.02	95	30.72	0.059	1539,83	0,306	75,0	1,159

SAT=Satisfaction, DEM = Demographics , COM=Company Characteristics, MAN= Previous Manufacturer;

N=1493

#### 3.5.4. Thresholds

In terms of the model estimates, satisfaction thresholds are captured by the main effects of company, demographic characteristics, and previous manufacturer ( $\gamma$  parameters in the model). Positive coefficients indicate lower thresholds compared to the reference category. A customer with a lower “reservation value” or lower satisfaction threshold will be more likely to repurchase at the same satisfaction level as a customer with a higher “reservation value” and better alternatives. An example might illustrate the interpretation of the threshold parameters. Consider the positive and significant coefficient of 0.769 for the length of ownership of up to three years versus the reference category of length of ownership of eight years and longer. This positive coefficient and thus lower threshold would indicate that customers who hold their vehicles three years and less would have higher repurchase probabilities at the same level of satisfaction as the reference category (customers who hold their vehicles more than eight years). This result is nicely illustrated in Figure 3-3. Further the interactions of manufacturer with company and demographic characteristics can be interpreted as thresholds moderated by previous manufacturer (manufacturer of the replaced vehicle). That is, threshold effects of company or demographic characteristics depend on the manufacturer of the replaced vehicle. Table 3-3 shows the  $\gamma$  coefficients of the logistic regression. To enhance readability, the significant coefficients are highlighted.

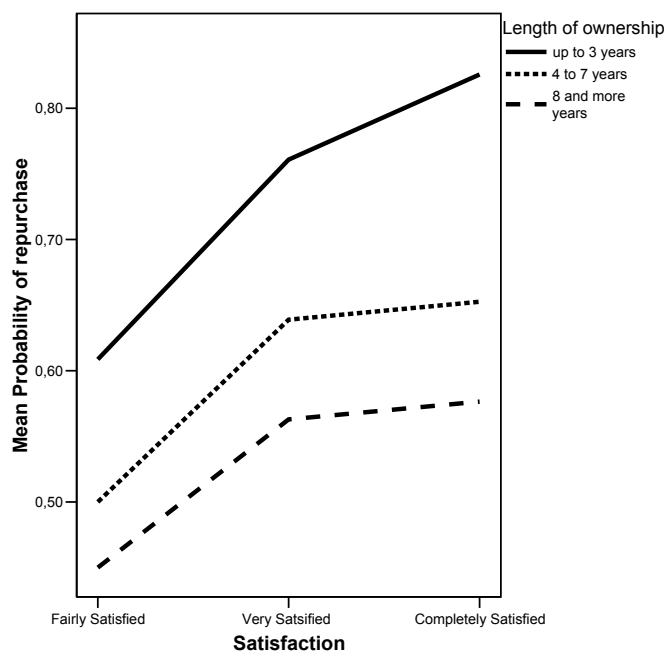
**Table 3-3: Satisfaction Thresholds**

<i>Indices</i>	<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>p-Value</i>
$\gamma_{z1}$	Satisfaction	0,378	0,326	0,247
	Age			0,769
$\gamma_{z2}$	Age(1) = 18 to 35 years	-0,778	1,088	0,475
$\gamma_{z3}$	Age(2) = 36 to 45 years	-1,064	1,049	0,311
$\gamma_{z4}$	Age(3) = 46 to 55 years	-1,032	1,139	0,365
$\gamma_{z5}$	Sex(1) = Male	0,468	0,925	0,613
$\gamma_{z6}$	<b>Consid(1) = Consideration of other vehicles</b>	<b>-1,706*</b>	<b>0,680</b>	<b>0,012</b>
	Branch			0,349
$\gamma_{c1}$	Branch(1) = Manufacturer	-0,977	0,541	0,071
$\gamma_{c2}$	Branch(2) = Retail	-0,375	0,459	0,415
$\gamma_{c3}$	Branch(3) = Construction	-0,644	0,412	0,118
$\gamma_{c4}$	Branch(4) = Service	-0,546	0,452	0,227
	Number of employees			0,064
$\gamma_{c5}$	Number of employees(1) = 1 to 9	-0,713	0,469	0,129
$\gamma_{c6}$	<b>Number of employees(2) = 10 to 50</b>	<b>-0,978*</b>	<b>0,456</b>	<b>0,032</b>
	Length of ownership (Lenown)			0,000
$\gamma_{c7}$	<b>Lenown(1) = up to 3 years</b>	<b>0,769**</b>	<b>0,282</b>	<b>0,006</b>
$\gamma_{c8}$	Lenown(2) = 4 to 7 years	-0,100	0,268	0,711
	Number of CVs			0,362
$\gamma_{c9}$	Number of CVs(1) = 1	-0,418	0,425	0,326
$\gamma_{c10}$	Number of CVs(2) = 2 to 9	-0,133	0,396	0,736
	Manufacturer (Manu)			0,000
$\gamma_{m1}$	Manu(1) = Mercedes-Benz	4,590	2,551	0,072
$\gamma_{m2}$	<b>Manu(2) = Volkswagen</b>	<b>-7,167**</b>	<b>2,285</b>	<b>0,002</b>

\*= $p < .05$ , \*\*= $p < .01$ 

Of all demographic characteristics only *consideration of other manufacturers* had a significant effect, providing general support for proposition P<sub>1</sub>. Customers considering not only the replaced manufacturer prior to purchase show a higher satisfaction threshold (indicated by the negative coefficient), hence a lower repurchase probability at an equivalent level of satisfaction, than customers considering only the replaced manufacturer ( $\gamma_{z6} = -1,706$ ,  $p < .05$ ). Further, the company characteristics, *number of employees* and *length of ownership* significantly affected the satisfaction threshold, providing support for proposition

P<sub>2</sub>: companies with 10-50 employees have a significantly higher threshold than companies with more than 50 employees ( $\gamma_{c6} = -0,978$ ,  $p < .05$ ). This result is in line with Bowman and Narayandas (2001) finding that larger companies tend to work with fewer vendors and thus are likely to have lower thresholds compared to smaller companies. Companies that hold their commercial vehicles for a short term (on average up to three years) evidenced a significantly lower satisfaction threshold (thus higher repurchase probabilities with equivalent levels of satisfaction) ( $\gamma_{c7} = 0,769$ ,  $p < .01$ ), than companies holding their commercial vehicles eight years and longer. Further, *manufacturer* significantly influenced the satisfaction threshold. Customers whose previous vehicle was from Volkswagen, evidenced a significantly higher threshold than customers of other manufacturers ( $\gamma_{m2} = -7,167$ ,  $p < .01$ ). Apparently Volkswagen has a less loyal customer base than other manufacturers. Hence, these findings support proposition P<sub>3</sub>. In the market under study, the commercial vehicle market, Volkswagen is a large volume producer. In the European Market where we conducted our study its market share was above 30% at the time of the survey. Large volume producer have traditionally less loyal customers than smaller producers with often stronger brands such as Mercedes-Benz.



**Figure 3-3: Differential Satisfaction Threshold of Length of Ownership**

Figure 3 exemplarily gives a graphical depiction of one of the found effects, the differential threshold effects of length of ownership. It becomes apparent that customers who on average keep their vehicles for a shorter period of time have lower satisfaction thresholds: at the same satisfaction level customers with shorter ownership cycles have a higher probability of repurchase than customers with an on average longer ownership cycle. We depict only the three highest levels of the satisfaction measure because the two lower satisfaction levels combined contain only around 10% of the respondents.

**Table 3-4: Manufacturer-Specific Satisfaction Thresholds**

<i>Indices</i>	<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>p-Value</i>
	Age * Manufacturer (Manu)			0,063
$\gamma_{zm1}$	<b>Age(1) by Manu(1)</b>	<b>-5,130*</b>	<b>2,121</b>	<b>0,016</b>
$\gamma_{zm2}$	Age(1) by Manu(2)	1,571	1,826	0,390
$\gamma_{zm3}$	Age(2) by Manu(1)	-3,296	1,997	0,099
$\gamma_{zm4}$	Age(2) by Manu(2)	1,963	1,601	0,220
$\gamma_{zm5}$	Age(3) by Manu(1)	-1,672	2,212	0,450
$\gamma_{zm6}$	Age(3) by Manu(2)	2,913	1,865	0,118
	Manu * Sex			0,120
$\gamma_{zm7}$	Manu(1) by Sex(1)	-1,940	1,715	0,258
$\gamma_{zm8}$	Manu(2) by Sex(1)	2,272	1,723	0,187
	Manu * Consideration of other vehicles (Consid)			0,129
$\gamma_{zm9}$	Manu(1) by Consid(1)	1,726	1,115	0,122
$\gamma_{zm10}$	Manu(2) by Consid(1)	2,028	1,143	0,076
	Branch * Manu			0,000
$\gamma_{cm1}$	<b>Branch(1) by Manu(1)</b>	<b>1,926*</b>	<b>0,872</b>	<b>0,027</b>
$\gamma_{cm2}$	Branch(1) by Manu(2)	1,412	0,732	0,054
$\gamma_{cm3}$	Branch(2) by Manu(1)	-0,045	0,778	0,954
$\gamma_{cm4}$	<b>Branch(2) by Manu(2)</b>	<b>1,574*</b>	<b>0,664</b>	<b>0,018</b>
$\gamma_{cm5}$	Branch(3) by Manu(1)	0,588	0,703	0,403
$\gamma_{cm6}$	<b>Branch(3) by Manu(2)</b>	<b>1,742**</b>	<b>0,576</b>	<b>0,002</b>
$\gamma_{cm7}$	Branch(4) by Manu(1)	1,128	0,792	0,154
$\gamma_{cm8}$	Branch(4) by Manu(2)	0,636	0,630	0,313
	Manu * Number of employees			0,842
$\gamma_{cm9}$	Manu(1) by Number of employees(1)			0,084
$\gamma_{cm10}$	Manu(1) by Number of employees(2)	-0,103	0,693	0,882

$\gamma_{cm11}$	Manu(2) by Number of employees(1)	0,659	0,670	0,325
$\gamma_{cm12}$	Manu(2) by Number of employees(2)	1,164	0,620	0,060
	Manu * Length of ownership (Lenown)			0,055
$\gamma_{cm13}$	Manu(1) by Lenown(1)	-0,108	0,501	0,829
$\gamma_{cm14}$	Manu(1) by Lenown(2)	0,768	0,412	0,063
$\gamma_{cm16}$	Manu(2) by Lenown(1)	0,086	0,446	0,848
$\gamma_{cm17}$	<b>Manu(2) by Lenown(2)</b>	<b>1,032**</b>	<b>0,374</b>	<b>0,006</b>
	Manu * Number of CVs			0,179
$\gamma_{cm18}$	Manu(1) by Number of CVs(1)	0,431	0,752	0,567
$\gamma_{cm19}$	Manu(1) by Number of CVs(2)	-0,491	0,670	0,464
$\gamma_{cm20}$	Manu(2) by Number of CVs(1)	0,382	0,624	0,540
$\gamma_{cm21}$	Manu(2) by Number of CVs(2)	-0,189	0,571	0,741

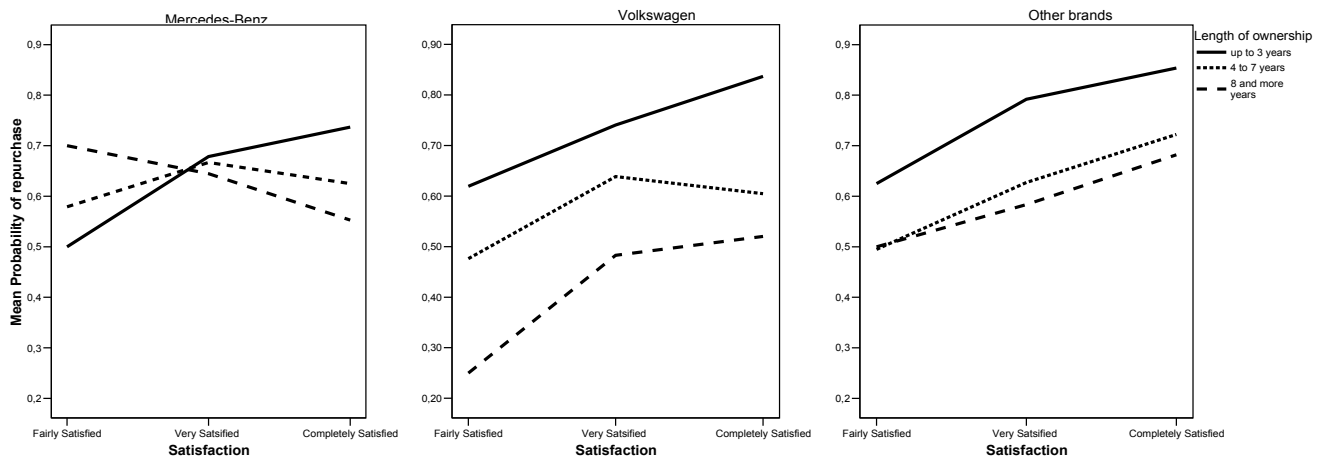
Note: \*=p<.05, \*\*=p<.01

Whereas age does not show a significant threshold effect on its own, it significantly influences the threshold when moderated by manufacturer, showing support for proposition P5. Mercedes-Benz customers who are between 18 to 35 years old have a significantly higher threshold ( $\gamma_{zml} = -5,130$  p<.05) than older customers. This effect however cannot be found for other manufacturers. This result stands in line with findings of Mittal and Kamakura (2001) who found that older customers have lower satisfaction thresholds. The same result can be found for branch of industry: no threshold effect can be found if the manufacturer variable is neglected. However it becomes clear from Table 3-4 that thresholds differ significantly for different branches of industries if the manufacturer is taken into account. The threshold effect of length of ownership, it appears is also moderated by manufacturer: whereas Figure 3-3 shows a strong threshold effect of length of ownership, the analysis on a manufacturer level shows, that this effect only holds true for Volkswagen, not however for Mercedes-Benz or other manufacturers, also confirming proposition P4.

Figures 4a-c graphically depict the differential impact of *length of ownership* for customers of different manufacturers. The importance of taking the manufacturer into the analysis becomes apparent: a general inspection of moderating effects has shown that customers with a lower length of ownership have a lower satisfaction threshold and hence a higher intrinsic retainability. An analysis on a manufacturer level however shows that this holds true only for customers who have replaced a vehicle from Volkswagen, not so for customers of Mercedes-Benz and other manufacturers. Summarizing, we could provide support for all our



propositions concerning satisfaction threshold effects as captured in  $P_1$  to  $P_5$ .



**Figure 3-4: Differential Satisfaction Thresholds of Length of Ownership for Different Manufacturers**

### 3.5.5. Response Bias

In terms of the model estimates the response bias is captured by the interactions between satisfaction ratings and the demographics, respectively satisfaction ratings and manufacturer ( $\delta$  parameters) implying that even after accounting for the differences in average rating, the translation of reported satisfaction into repurchase depends on demographic characteristics and the previous manufacturer. Negative coefficients indicate higher response bias compared to the reference category. Again higher response bias implies that satisfaction ratings translate less well into repurchase behavior. Graphically this results in a flatter slope of the satisfaction-repurchase probability line. Not a single demographic characteristic in our model shows a significant response bias effect on its own, clearly rejecting proposition  $P_6$  and standing in contrast with previous findings in the literature (e.g., Mittal & Kamakura, 2001). Only *manufacturer* has a significant response bias effect, providing support for proposition  $P_7$  (see Table 3-5).

**Table 3-5: Response Bias Effects**

<i>Indices</i>	<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>p-Value</i>
	Age * Satisfaction			0,657
$\delta_{z1}$	Age(1) by Satisfaction	0,045	0,287	0,874
$\delta_{z2}$	Age(2) by Satisfaction	0,266	0,279	0,341
$\delta_{z3}$	Age(3) by Satisfaction	0,257	0,307	0,402
$\delta_{z4}$	Satisfaction by Sex(1)	-0,138	0,256	0,589
$\delta_{z5}$	Consideration of other vehicles (1) by Satisfaction	0,230	0,192	0,230
	Manu * Satisfaction			0,000
$\delta_{m1}$	<b>Manu(1) by Satisfaction</b>	<b>-1,416*</b>	<b>0,614</b>	<b>0,021</b>
$\delta_{m2}$	<b>Manu(2) by Satisfaction</b>	<b>1,469*</b>	<b>0,574</b>	<b>0,011</b>

Note: For an explanation of the abbreviated categories see Table 3-3; \*=p<.05, \*\*=p<.01

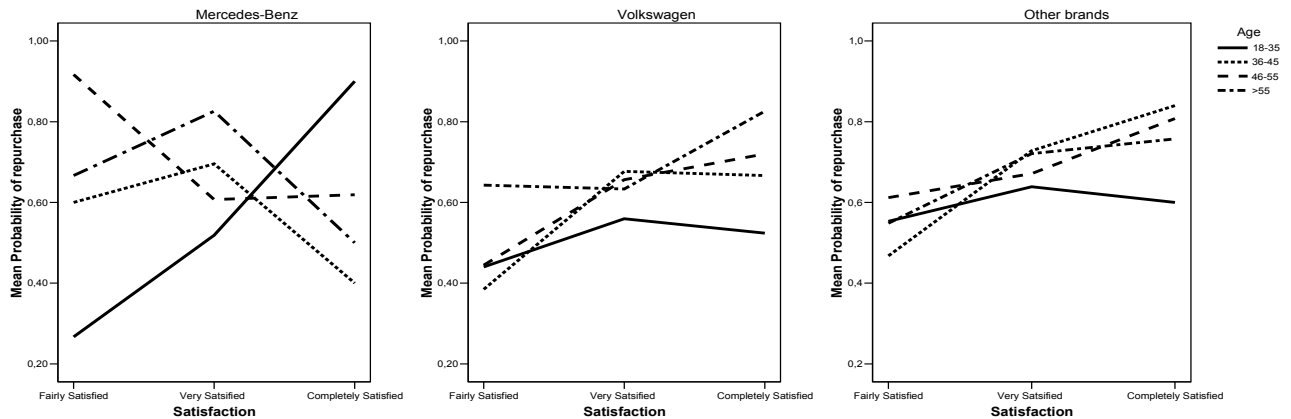
The fact that no single demographic characteristic has an effect on response bias is particular striking as all of them evidence significant effects on response bias when the manufacturer was taken into account, providing clear support for proposition P<sub>8</sub> and strongly highlighting the necessity to investigate the effect of manufacturer on response bias effects (see Table 3-6).

**Table 3-6: Manufacturer-Specific Response Bias Effects**

<i>Indices</i>	<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>p-Value</i>
	Age * Satisfaction * Manu			0,040
$\delta_{zm1}$	<b>Age(1) by Satisfaction by Manu(1)</b>	<b>1,358*</b>	<b>0,541</b>	<b>0,012</b>
$\delta_{zm2}$	Age(1) by Satisfaction by Manu(2)	-0,470	0,479	0,327
$\delta_{zm3}$	Age(2) by Satisfaction by Manu(1)	0,638	0,508	0,209
$\delta_{zm4}$	Age(2) by Satisfaction by Manu(2)	-0,659	0,422	0,118
$\delta_{zm5}$	Age(3) by Satisfaction by Manu(1)	0,355	0,560	0,526
$\delta_{zm6}$	Age(3) by Satisfaction by Manu(2)	-0,736	0,490	0,133
	Satisfaction * Sex * Manu			0,012
$\delta_{zm7}$	Satisfaction by Sex(1) by Manu(1)	0,814	0,448	0,069
$\delta_{zm8}$	Satisfaction by Sex(1) by Manu(2)	-0,789	0,472	0,094
	Consid * Satisfaction * Manu			0,062
$\delta_{zm10}$	Consid(1) by Satisfaction by Manu(1)	-0,487	0,307	0,113
$\delta_{zm11}$	<b>Consid(1) by Satisfaction by Manu(2)</b>	<b>-0,679*</b>	<b>0,305</b>	<b>0,026</b>

Note: For an explanation of the abbreviated categories see Table 3-3; \*=p<.05, \*\*=p<.01

For young customers (18 to 35 years) the response bias is lower, meaning that changes in their satisfaction ratings strongly translate into repurchase for this age group only for Mercedes-Benz ( $\delta_{zm1}=1,358$ ;  $p<.05$ ) whereas there is no significant difference in response bias due to age for customers of other manufacturers.



**Figure 3-5: Differential Response Bias Effect of Age for Customers of Different Manufacturers**

It can be seen clearly from figure 3-5 that differences in satisfaction ratings translate better into repurchase behavior for younger customers than for older customers. Apparently response bias is stronger for older customers than for younger customers. However this is only the case for customers of Mercedes-Benz (respondents who replaced a vehicle from Mercedes-Benz). Younger customers of other manufacturers do not show a lower response bias than older customers. Similarly differential effects of response bias for manufacturers can be found for *sex* and *consideration of other manufacturers*. Customers of Volkswagen who considered more than the replaced manufacturer prior to their purchase show a significantly higher response bias (meaning their satisfaction ratings translate less well into repurchase behavior) than customers who only consider the replaced manufacturer ( $\delta_{zm11}=-0,679$ ;  $p<.05$ ). The translation of satisfaction ratings into repurchase behavior for customers of Mercedes-Benz and other manufacturers however does not differ with the *consideration of other manufacturers*. Summarizing our results support  $P_7$  and  $P_8$  while  $P_6$  has to be rejected and further underscores the utility and also necessity to include manufacturer as an additional moderating variable. Table 3-7 provides an overview of our findings.

**Table 3-7: Overview of Propositions and Findings**

<b>Propositions</b>		<b>Findings</b>
P1	Satisfaction thresholds vary with demographic characteristics of a decider in a buying center	supported
P2	Satisfaction thresholds vary with company characteristics	supported
P3	Satisfaction thresholds vary with the manufacturer	supported
P4	Satisfaction thresholds of company characteristics vary with the manufacturer	supported
P5	Satisfaction thresholds of demographic characteristics of a decider in a buying center vary with the manufacturer	supported
P6	Response bias varies with the demographic characteristics of a decider in a buying center	rejected
P7	Response bias varies with the manufacturer	supported
P8	Response bias of demographic characteristics of a decider in a buying center varies with the manufacturer	supported

### 3.6. Discussion

A prerequisite for the management of business relationships is a thorough understanding of the drivers of loyalty and retention, especially in markets with heterogeneous customer bases (Eriksson & Mattson, 2002). Especially in business markets it is important to identify customers that have a high propensity to be loyal and thus also profitable in order to help vendors more effectively allocate customer management efforts across the customer base and better target customer groups (Palmatier, Gopalakrishna, & Houston, 2006). By building on and expanding a model developed by Mittal and Kamakura (2001) we found, that demographic, company characteristics and manufacturer all have a significant influence on satisfaction thresholds. For example, customers considering more than one manufacturer have a higher satisfaction threshold than customers considering more, companies with 10 to 50 employees have a higher threshold than companies with more than 50 employees and Volkswagen customers have higher satisfaction thresholds than customers of other manufacturers. These easy to measure variables can help identify customer groups that have a low satisfaction threshold and thus a high probability to repurchase from the same manufacturer. In addition we found that the effects of demographic- and company

characteristics on the satisfaction thresholds largely depends on the manufacturer. Furthermore we could show that the manufacturer had a significant impact on response bias and that the impact of demographic characteristics on response bias is manufacturer-specific. For example, satisfaction ratings of young Mercedes-Benz customers translate much better into actual repurchase than those of older Mercedes-Benz customers, a finding that is specific to Mercedes-Benz and could not be found for customers of other manufacturers. Our results imply that great care should be paid when generalizing findings on the moderating role of demographic characteristics on the satisfaction retention link from one manufacturer to another. Further we could show that satisfaction alone is a very weak predictor of repurchase behavior, highlighting the importance of taking into account moderating variables in a business-to-business setting.

### **3.6.1. Managerial Implications**

Identifying manufacturer-specific satisfaction thresholds and response biases may be useful to managers for various reasons: manufacturer-specific customer groups defined by certain demographics or company characteristics with low satisfaction thresholds can be viewed as inherently loyal customers. Several authors stress the importance of identifying customers with high levels of intrinsic retainability on which companies can focus their relationship-building efforts (Reichheld, 1996; Reinartz & Kumar, 2000). A key conclusion of Reinartz and Kumar's (2000) study is that a substantial group of intrinsically short-lived customers exists and that it is necessary to identify this group as early as possible and stop investing in them. Instead, relationship building should focus on customers with higher levels of intrinsic retainability (Mittal & Kamakura, 2001; Reichheld, 1996). These customers can also be seen as a shelter from competition by other manufacturers as they apparently see fewer alternatives other than to repurchase from the manufacturer even when their satisfaction is low. Thus our results can further be used for customer value models and value based segmentation approaches for relationship marketing purposes. Customers belonging to a group with low satisfaction threshold for a certain manufacturer will be more likely to repurchase at the same satisfaction level and thus represent long-term customers for that manufacturer. All relevant relationship marketing measures, that management deems appropriate, can be offered to this group (Reinartz & Kumar, 2003). In contrast, customers with high satisfaction thresholds are inherently short-lived and following Reinartz and

Kumar's (2003, p. 79) suggestion, companies should stop "chasing these customers". Our results show that the retention rates differ substantially for certain customer groups with similar satisfaction scores. Since our grouping variables were easy to measure demographic variables of a decider in a buying center and company characteristics that are often available in customer data bases, our analyses can provide an actionable framework for management to identify potential life-time customers and differentiate their relationship marketing efforts.

However, as our results show, managers cannot rely on general findings about moderating characteristics but are well advised to tap into their own customer base. Apart from identifying satisfaction thresholds of one's own customer base, identifying customers with high satisfaction thresholds of key competitors' may also provide valuable insight. Those customers should be the most volatile and the most easy to specifically target and conquer when entering a new segment or placing a new product.

Research on the high defection rate of satisfied customers has left managers with an irritation about how to interpret satisfaction surveys or if to conduct them at all: "They tend to be long and complicated, yielding low response rates and ambiguous implications that are difficult for operating managers to act on" (Reichheld, 2003, p. 47). Identifying customer specific response biases' may help managers to better interpret satisfaction survey results. Questions like "for what customers do changes in satisfaction ratings translate into changes in repurchase behavior?" are extremely relevant for managers. Managers may then want to monitor satisfaction ratings of those customer groups with low response bias more closely than satisfaction ratings of other customer groups with high response bias. Only for customer groups with low response bias changes in satisfaction scores are managerially relevant: For these, changes directly translate into changes in repurchase behavior.

### **3.6.2. Limitations and Future Research**

Why do certain customer or company characteristics positively impact on satisfaction thresholds and response bias whereas others possess a negative impact? And why does a certain characteristic impact on the response bias for one manufacturer but not for another? It seems hardly feasible to provide a solid theory for those differences and thus we refrained from deriving specific hypotheses and hence also abstained from providing ex-post

explanations of why certain characteristics impacted on the satisfaction-threshold in a certain way and why others did not. The selection of our sampled and investigated characteristics as well as our selection of categories may thus seem arbitrary from a theoretical viewpoint. However we did not aim at providing and testing a theory of *why* certain characteristics impact on the satisfaction-retention link in a certain way but at showing *that* moderating effects are manufacturer-specific and that company characteristics have to be taken into account as moderators in business-to-business contexts. Further, we focused largely on demographic characteristics of the key decider in a buying center as well as demographic company characteristics. The aim was to investigate, whether demographic variables serve as moderators of the satisfaction-retention link in a business-to-business setting as was found for business-to-consumer settings. The answer is yes. Both can serve as moderators in business-to-business settings. However, business settings allow for further potential moderators that have not been investigated in this study, like the ability to switch from one supplier to another (see Jones & Sasser, 1995) or relational norms (see Heide & John, 1992). Future research should aim at testing their moderating role on the satisfaction-retention link.

We investigated the commercial vehicle market in a major European market. The majority of customers for commercial vehicles are handcraft companies (painters, plumbers, builders etc.), as well as small retail and service companies. Larger retailers typically have their own truck fleets or employ professional shipping companies. The market is therefore dominated by small companies. In the country of our study over 887.000 handcraft enterprises exist. More than 94% employ less than 20 employees. Thus our sample contains predominantly small and medium-sized companies. Buying decisions in smaller companies are typically less collective and are closer to buying behavior for consumer goods than buying decisions in very large companies. On the one hand side this fact supports our key informant approach, but on the other hand side it raises the question whether buying decisions for very large companies do deviate from the obtained results. Since our sample reflected the population under study the proportion of large companies was too small to allow separate analyses for larger companies. This only would have been possible with a boost sample of only large companies. Even though this limits the generalizability of our findings to business markets with only few very large customers, our results and methodology can still aid managers to understand the satisfaction-retention link, where it is most needed: for markets with a large and heterogeneous customer base of predominantly small to medium sized companies (Eriksson & Mattsson, 2002).

One may criticize, that we did not use a longitudinal design as would be desirable in investigations of the satisfaction-retention link in a business-to-consumer setting. However constructing a longitudinal design where satisfaction and repurchase is measured at two different points in time is difficult to impossible in a business-to-business setting for one reason: contrary to the business-to-consumer context, in a business-to-business context a high number of vehicles are purchased over time. Asked at one point in time to give a satisfaction rating with a specific vehicle, it will be hard to impossible for a customer to specify at a different point in time if that exact same vehicle was replaced with one of the same or another manufacturer as many new vehicles may have been purchased in the elapsed time. In order to assure a clear link between satisfaction and retention we thus decided to measure satisfaction with a vehicle that has just been replaced with a new vehicle with similar specifications. Nevertheless we are aware that this may have led to an inflated relation of the investigated satisfaction retention link. Cognitive dissonance theory would predict that customers who repurchased the same vehicle give higher and customers who switched to another manufacturer give lower satisfaction ratings to their replaced vehicle (see Festinger, 1957). This would in effect to lead to a stronger relationship between satisfaction and repurchase. However the influence of satisfaction alone on repurchase was low anyhow, and rose only by incorporating further variables.



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## **4. Article 3: When Implicit Promises are Broken: The Role of Relational Norms in Consumers' Reactions to Brand Transgressions**

Together with Marcel Paulssen and Björn S. Ivens

To be submitted to *Journal of the Academy of Marketing Science*

### **4.1. Abstract**

In recent years, consumers and their interactions with brands have been studied from a relationship perspective. In particular, it has been posited that norms play a crucial role in understanding how consumers respond to brand behavior. However, prior research has relied upon broad and undifferentiated operationalizations of the norm concept. More generally, empirical research on norms in real brand relationships in the field has been lacking. Little is known about the type of norms that may operate and what impact they may have on consumers' reactions to brand behavior. In this paper, the authors draw upon Macneil's Relational Exchange Theory and expand it from the business-to-business to the consumer-brand domain. They develop a conceptual framework modeling the impact of norms on consumers' reactions to brand transgressions and test it in an empirical study in the banking sector. The results provide evidence that relational exchange norms do operate in consumer-brand relationships and that they are conceptually distinct from concepts such as trust or satisfaction.

### **4.2. Introduction**

Practitioners and scholars largely agree that brands may constitute one of the most important intangible assets under a company's control (e.g., Srivastava, Tasadduq, and Fahey 1998; Hunt 2000). Consequently, brand management counts as one of marketing's core processes. According to Ailawadi and Keller (2004, p. 338) the key question in defining brand potential

thereby is, „what should the brand promise be? How should the brand be competitively positioned?“ and according to Herbert Hainer, CEO of adidas Inc., the world’s second largest sports goods manufacturer, “who reneges on this promise will loose” (Hainer 2006, p. 1). Put differently, brand management is about making and keeping promises. But what precisely happens when brand promises are broken? From a consumer-brand relationship perspective such incidents are of pivotal importance because people primarily derive inferences about their relationship partner from negative acts. As Ybarra and Stephan (1999, p. 719) explain “negative behavior seems to provide the perceiver with a window into the dispositional qualities of the person.” Given that building long-term relationships with customers is a core objective in relationship marketing, understanding consumers’ reactions toward transgressions is an important research topic. Surprisingly few studies, however, have investigated this issue. Fournier and Brasel (2002, p. 102) comment, “work focusing on mistakes that companies or brands inevitably make has been rare in relationship research”. Actors in a relationship develop expectations about what type of behavior towards the other party is appropriate (Macneil 1980). In marketing and in other disciplines such expectations have been referred to as relational norms (e.g., Ivens and Blois 2004). Relational norms represent informal rules, i.e. they are not written down in formal contracts. When a person experiences that his relationship partner has behaved in a manner inconsistent with a relational norm, this partner’s behavior is considered a transgression (e.g., Baumeister, Stillwell, and Heatherton 1995; Boon and Holmes 1999).

In a longitudinal field experiment, Aaker, Fournier, and Brasel (2004) investigated the moderating effect of brand personality (see Aaker 1997) on consumers’ perception of marketing failures. They found that one and the same transgression led to different results in relationship strength depending on the brand’s personality. They argue that essentially consumers must have formed different kinds of expectations toward the different brands and that those expectations must have been the cause for different reactions towards the same service failure: “Findings corroborate the view that objective evidence, such as that revealed by a transgression, may be interpreted differently depending on prior experiences and relationships” (Aaker et al. 2004, p. 13). It thus appears in their study that the one brand’s personality has elicited certain expectations towards the relationship that the other one hasn’t, making the same incident a transgression in the one relationship but not in the other. In a similar perspective, Aggarwal (2004) has dealt with the question whether one and the same brand behavior leads to different consumer responses. Instead of focusing on brand



personality however, Aggarwal directly influenced participants' relationship norms, by applying a social relationship framework (Clark and Mills 1993), differentiating between essentially two types of relationships, *communal* and *exchange* relationships. He found that consumers evaluated the brand's action - charging a fee for a service - differently depending on the kind of brand relationship norm that was activated. Although Aggarwal's (2004) results highlight the potential role of relationship norms in consumer-brand relationships several conceptual problems arise from his study. At the centre lies the question, whether Clark and Mills' relationship framework is at all applicable to the brand context. As consumer-brand relationships are at their very core based on exchange it is at least questionable whether communal relationships (the central norm in a communal relationship is to give without expecting to get something back in return) at all exist in the consumer-brand domain. Even more importantly however, Aggarwal did not measure actual brand relationships but confronted participants in an experiment with hypothetical descriptions of relationships. Johar's (2005, p. 26) key question, "Is there a norm attached to brand behavior?" hence still remains unanswered.

In addition to answering whether norms do evolve in brand relationships and guide consumers' behavior, researchers have asked that future research should "ideally specify the contract terms that govern each relationship type" (Aaker et al. 2004, p. 14). The purpose of this paper is to provide more detailed insights into which role relational norms play in consumer-brand relationships. More precisely we draw upon the extant literature in the field of legal sociology as well as business-to-business relationships. In these fields, Macneil's (1978, 1980, 1981) Relational Exchange Theory (RET) builds the foundation for the study of norms and their impact on relationship quality. The remainder of this paper is structured as follows: in a first step we introduce Relational Exchange Theory and discuss its applicability to the field of consumer-brand relationships. Secondly, we analyze the importance of norms in understanding consumers' reactions to relationship transgressions. We develop a conceptual model and formulate hypotheses about the impact of relational norms on consumers' coping strategies. Next we present the design and the results of an empirical study conducted in the banking sector. We conclude with a discussion of theoretical as well as managerial implications and we present avenues for further research.

### 4.3. Relational Exchange Theory

The general idea that economic exchange is influenced by norms is prominent in many different research streams, including sociology (e.g., Granovetter 1985), organization theory (e.g., Ouchi 1980), negotiation theory (e.g., Greenhalgh 1987), strategy (e.g., Gulati 1995), contract law (e.g., Macneil 1981), economics (e.g., Gibbons 1999), industrial marketing (e.g., Noordewier, John, and Nevin 1990), channel relationships (e.g., Jap and Ganesan 2000), and consumer behavior (e.g., Aggarwal 2004). Norms can be defined as unwritten or informal codes of conduct that either prescribe or discourage behaviors for actors by defining them as illegitimate in the context at hand (Coleman 1990; Gibbs 1981). The overwhelming part of articles on relationship norms in marketing has drawn upon Ian Macneil's Relational Exchange Theory (see e.g., Macneil 1978, 1980, 1981; for reviews see Heide and John 1992; as well as Ivens and Blois 2004). Macneil as well as other authors (e.g., Kaufmann and Stern 1988; Noordewier, John, and Nevin 1990; Heide 1994; Lusch and Brown 1996) have identified several norms (e.g., solidarity, flexibility, or reciprocity) that structure and govern exchange relationships. So far, empirical tests of these norms have only been conducted in the field of business-to-business relationships. The literature on the role of norms in consumer-brand relationships has been scarcer. And extant work in this field has not operationalized norms by drawing upon Relational Exchange Theory. For example, Aggarwal (2004) in an experimental study finds empirical evidence for the importance of norms in consumer-brand relationships. However his focal point of investigation were hypothetical brand relationships, the investigation of the type of norms guiding actual brand relationships has so far been widely neglected. Hence, we propose to test the applicability of Macneil's Relational Exchange Theory in the context of consumer-brand relationships.

Exchange theory lies at the core of marketing (Dwyer, Schurr, and Oh 1987). RET allows understanding the different facets of exchange by developing a framework of several exchange norms. It assumes that exchange is not only an economic phenomenon but characterizes all forms of interaction and posits that exchange acts (transactions) differ according to their character (Macneil 1980). They can be classified on a continuum that ranges from discrete to relational exchange. Purely discrete exchange, however, constitutes an exception and consequently most transactions have relational character (Macneil 1983). Agreements between two parties can contain explicit as well as implicit arrangements -

relational norms (e.g., Hadfield 1990). The norm concept has been applied to the analysis of interactions between individuals or groups in different disciplines (Thibaut and Kelley 1959; Axelrod 1986; Bendor and Mookherjee 1990). Macneil (1980) considers exchange processes (regardless whether discrete or relational) to be fundamental and omnipresent social phenomena (Whitford 1985). He developed a comprehensive set of common norms for the governance of exchange processes, which he interpreted as principles of right action with binding character. In this perspective, their function is to guide and control behavior. In addition to their *ex ante* role as expectations (Heide and John 1992; Lipset 1975) or guidelines for appropriate behavior (Scanzoni 1979), norms have an *ex post* function as reference points for the evaluation of the behavior actually shown in a given situation. They permit the judging of the conformity of a party's actions with the established standards.

#### **4.4. Discussion of the Applicability of RET to Consumer-Brand Relationships**

Some elementary differences exist between the nature of business-to-business and consumer-brand relationships, which raises the question of the applicability of Macneil's RET to the consumer-brand domain. Whereas business-to-business relationships are often characterized by a high degree of interpersonal interaction between relationship partners, consumer-brand relationships usually involve little if any interpersonal interaction. So one central question is, how relationship expectations can evolve in such relationships. Undoubtedly, brand management creates at least unilateral expectations on the customer side. It does so by making value propositions, by using the marketing mix, or through the behaviors of brand representatives (managers, sales people, or celebrity endorsers). The customer receives signals from which he derives the brand's personality structure and, through inference (Johar, Sengupta, and Aaker 2005), develops a set of expectations what behavior he may expect from the brand (see Aaker et al., 2004).

However, for at least some brands a more interactive perspective on the exchange with its customers seems to be justified, in which norms can be interpreted as joint expectations and, hence, as governance mechanisms for the relationship. In fact Muniz and O'Guinn (2001) argue that brands are social objects and that consumers are actively involved in their creation. Brands interact with their customers in various ways. In fact, Fournier (1998, p. 345) argues that, "everyday execution of marketing plans and tactics can be construed as behaviors

performed by the brand acting in its relationship role.” On the one hand they actively communicate their personality traits in a unidirectional and rather anonymous way through mass media. However, in addition to this, many brands attempt relating to customers in a more bidirectional, individualized and direct manner through relationship marketing tools such as customer clubs, event marketing, direct mail and the like. In reaction to these communication efforts, customers provide feedback in the form of purchases and communication through letters, telephone calls, emails, Internet blog entries or brand communities (see McAlexander, Schouten, and Koenig 2002). Muniz and O’Guinn (2001) argue that brand communities represent a form of consumer agency. France and Muller (1999) suggest that due to their collective nature new forms of computer-mediated communication, consumers now have a greater voice than they have in more isolated situations. As an example of interactive consumer-brand communication, in 2005 the internet blog author Jeff Jarvis stirred up strong customer and media attention by describing his difficulties in getting his Dell computer repaired and coining the term “Dell Hell” (Daily Telegraph 2/20/07). This eventually led Dell to significantly increase its customer service efforts and even create an own website called *www.dellideastorm.com*, a community site for customers to share and discuss their ideas and concerns concerning service, products and even future products with Dell. Via these channels, customers transmit valuable information about their expectations and about brand behaviors they consider to be unacceptable. In fact Moon (2000, p. 325) argues that, computer technology is making reciprocal exchange between brands and customers increasingly tractable:

“Marketers have already discovered that one of the advantages of such technology is its ability to engage in one-on-one interactions on a large scale. And as computer programs become increasingly sophisticated, it is reasonable to assume that their ability to carry on “intelligent” conversations—that is, conversations that can address an individual in a personalized manner and respond to that individual in some contingent fashion (Deighton 1996)—will only improve over time”.

In addition, researchers have formulated the notion that companies, too, have specific expectations towards their customers’ behavior: “There’s a balance between giving and getting in a good relationship. But when companies ask their customers for friendship, loyalty, and respect, too often they don’t give those customers friendship, loyalty, and respect in return” (Fournier, Dobscha, and Mick 1999, p. 44). From this vantage point, norms emerge

through interactions taking place between the customer and the brand. In fact some scholars have argued for a paradigm shift to interactive marketing, promoted by advances in technology (Deighton 1996). Through a process of signaling and adjustment both parties may eventually form joint expectations. This dynamic evolvement of norms in the relationship development process was confirmed in a longitudinal study of consumers of an Internet grocery service provider (Fournier, Avery, and Wojnicki 2005). In terms of relationship phases (Dwyer, Schurr, and Oh 1987), norm formation was especially prevalent in the relationship expansion phase, providing initial qualitative support for our reasoning.

Whereas RET norms are conceptualized to complete written agreements in business-to-business relationships, few if any written agreements exist in most consumer-brand relationships. However, even more so, norms should take over the governing role in the absence of written agreements. According to Macneil (1980) norms should evolve in all relationships. A relationship exists as soon as exchange exceeds the single discrete transaction (Macneil 1983). This conceptualization of relationships seems far more applicable to the consumer-brand domain than conceptualizations that lean on the interpersonal relationship domain (see Fournier 1998). That means, consumers do not have to feel like their relation to a brand resembles a relationship with a friend, spouse or colleague for the brand relation to qualify as a relationship in RET terms. Although several boundary conditions for the emergence of norms are likely to exist in the consumer-brand domain, previous research (see Aaker et al. 2004; Aggarwal 2004; Aggarwal and Law 2005; Aggarwal and Zhang 2006) clearly points to the possibility that norms can at least potentially emerge in real consumer-brand relationships. However it is left to empirical research to test whether RET norms do govern actual consumer-brand relationships. It is the aim of this paper to attempt such a first empirical investigation.

#### **4.4.1. What Norms Govern Consumer-Brand Relationships?**

As in most empirical studies on RET we focus on three norms to span the domain of social norms in exchange relationship (see e.g., Kaufman and Stern 1988; Heide and John 1992). The three norms we identify as having particular relevance to the study of consumer-brand relationships are the norms of *reciprocity*, *flexibility* and *solidarity*.

*Reciprocity:*

Reciprocity is a norm of distributive justice. No exchange relationship continues unless both partners are making some kind of profit (Homans 1961). Reciprocity is characterized by mutually agreeable amounts of give and take (Gouldner 1960). Both sides expect that none of the actors will try to benefit solely on the cost of the other. Whereas reciprocity is more apparent in a discrete exchange than in a relational one because of the immediacy of a discrete exchange, the vital point in relational exchange is a more open-ended perception of reciprocity, i.e. both parties assume that in the long run mutual concessions will even out, so that both benefit from the relationship (see Ivens and Blois 2004). A sense of reciprocity is a condition sine qua non for the establishment of long-term relationships in any context. Such an attitude prevents the parties from maximizing their individual relationship benefits at the expense of the exchange partner. Houston and Gassenheimer (1987) argue that reciprocity is said to transform the relationship between the exchange partners, establishing a bond between the donor and recipient. According to Miller and Kean (1997), reciprocal behavior permeates everyday living from the micro level of social exchange between family members to the macro level of international trade agreements.

Reciprocity is an important variable in marketing relationships and has been advanced as a key to creating successful commercial interaction by some scholars (e.g., Anderson 1994). Similarly, Fournier (1998, p. 345) argues for the applicability of the reciprocity norm to consumer-brand relationships:

“Undoubtedly, there exists a lack of parallelism in applying the reciprocity criterion to an inanimate brand object. A brand may enjoy selected animistic properties, but it is not a vital entity. In fact, the brand has no objective existence at all: it is simply a collection of perceptions held in the mind of the consumer. The brand cannot act or think or feel — except through the activities of the manager that administers it. In accepting the behavioral significance of marketing actions, one accepts the legitimacy of the brand as contributing relationship partner.”

According to Fournier (1998) consumers expect some degree of reciprocity from their brands through actions taken on the brand’s behalf by the associated firm. In fact, in identifying 15 different types of consumer-brand relationships, reciprocity is one of the key differentiating features Fournier draws on.

For Cowles (1996, p. 3) reciprocity between customer and company is a precondition for trust to emerge in relationships, “if firms ask for customer trust, they should also trust their customers in return”. Miller and Kean (1997) found that reciprocity can be a more important factor to the longevity of consumer-retailer relationships than economic motives or utility alone. In personal as well as service relationships people expect significant levels of reciprocity. For example, sharing personal information tends to be a mutual exchange between hairstylist and customer in a strong service relationship (Price and Arnould 1999). In an experimental investigation Moon (2000) has applied the reciprocity principle to information exchange in consumer-brand relationships and could show that consumers are willing to disclose even intimate personal information as long as it is preceded by some disclosure from the company side, so that consumers feel a sense of reciprocity.

#### *Flexibility:*

Flexibility is a bilateral expectation of willingness to make adaptations as circumstances change (Noordewier et al. 1990). It provides for relationship adaptation through the modification of agreements in response to unforeseen events and changing circumstances (Macneil 1980; Boyle et al. 1991; Noordewier, John, and Nevin 1990). The probability that at least one party feels the need to adapt the original agreement to changed circumstances increases with the length of the time horizon in a relationship (Ganesan 1994). Flexibility hence describes an actor’s willingness and his expectation of the partner’s willingness to adapt an existing implicit or explicit agreement to new environmental conditions (Noordewier, John, and Nevin 1990). Since consumers, just as much as professional purchasing managers, make agreements or conclude contracts under conditions of uncertainty, the underlying causes of the need for flexibility are identical in all those consumer-brand relationship in which a consumer enters some sort of explicit agreement or contract (e.g., in the form of subscriptions to tickets or magazines, insurance contracts, buying agents, service agreements, auction platforms and the like).

#### *Solidarity:*

The norm of solidarity can be defined as the willingness of relationship parties to strive for joint benefits (Achrol and Gundlach 1999; Antia and Frazier 2001; Heide and John 1992; Kaufmann 1987; Rokkan, Heide, and Wathne 2003). Solidarity is expressed through behaviors that contribute directly to the relationship maintenance (Heide and John 1992; Macneil 1980; Kaufmann and Stern 1988). In practice, a solidarity norm manifests in the

form of a ‘we- feeling’ or shared identity between the exchange partners (Etzioni 1988; Greenhalgh 1987; Macneil 1980; Takahashi 2000). Evidence for the fact that consumers can in some cases develop such a ‘we-feeling’ with their brands can be found for example in research on brand communities where members report to feel an important connection to the brand (see Muniz and O’Guinn 2001). One way this ‘we-feeling’ can materialize is in customers’ strong and public opposition to the brand’s competitors (for example Apple users outlying the disadvantages of Windows-PCs on personal web-sites) or by celebrating the brand’s history (see Muniz and O’Guinn, 2001).

The norm of solidarity becomes especially relevant in situations in which the relationship partner is in predicament. It promotes a bilateral approach to problem-solving and supports mutual adjustments within the exchange relationship (Macneil 1980; Poppo and Zenger 2002). As an example of solidarity in consumer-brand relationships, a customer in a relationship high on the norm of solidarity who experiences temporary liquidity problems, failing to keep up his payments (e.g., monthly installments) should expect the seller to express his solidarity by not insisting on a prompt payment (see Achrol 1997).

*Relationalism as a meta-norm:*

Although reciprocity, flexibility and solidarity are conceptually distinguishable, RET norms are usually conceptualized as highly interrelated dimensions of a higher-order construct *relationalism* (REL; see e.g., Noordewier, John and Nevin 1990; Heide and John 1992). As Macneil (1980) notes, one of the sources of reciprocity is solidarity, but at the same time solidarity cannot survive long in the face of perceptions that one side is constantly getting too good a deal, which is a perceived failure of reciprocity. Likewise, long-term reciprocity can hardly be achieved without at least some degree of flexibility (Gundlach et al. 1995). Hence, Noordewier, John, and Nevin (1990) argue that relationalism can be appropriately viewed as an underlying syndrome or a higher order norm, which gives rise to other, more specific norms. Heide and John (1992) found empirical support for such a higher second order norm: although all three norms had good measurement qualities by themselves and could be seen as single factors they strongly loaded on a higher order factor. Although these three dimensions have distinct elements, they originate from a single order relational norm (Noordewier, John, and Nevin 1990). Similar to Heide and John (1992) our measurement structure hence models relational norms as a single second-order factor with three first order factors, representing the three dimensions, reciprocity, flexibility, and solidarity.



#### **4.4.2. Norms' Guiding Role in Consumers' Reactions to Relationship Transgressions**

A transgression is usually defined as a violation of the implicit or explicit rules guiding relationship performance and evaluation (Metts 1994). It has been argued that how people cope with negative incidents in relationships has greater impact on relationship strength than positive relationship features (Rusbult et al. 1991). This is because of the high levels of salience and the high diagnosticity of negative events (Fiske 1980). From a marketing perspective, how consumers choose to react to such a transgression is of special relevance. Do they actively engage in joint problem solving or do they simply exit the relationship towards a competitor's brand? Three responses to relationship problems in marketing have received special scrutiny: loyalty, voice and neglect. Several authors have confirmed the existence of these responses to relationship problems in marketing contexts (e.g., Andreasen 1985; Ping 1993, 1997; Singh 1990). Further, research has proposed that these constructs should be antecedents of exiting (see Duck 1982; Ping and Dwyer 1991; Rosse and Miller 1984), something Ping (1999) could empirically show in a marketing context.

##### *Loyalty:*

Hirschman (1970) described loyal behavior as remaining silent with confidence that things will eventually get better or simply refusing to exit. He argues that the decision to stay loyal should be based on a) an evaluation of the chances of getting back on track with the firm through the actions of others (e.g., the firm) and b) the judgment that it is worth to trade the uncertainty of an alternative relationship against those chances. Loyal behavior is a passive response strategy because no action is taken to improve conditions instead it is expected that conditions will improve by actions of the partner or others. Several studies have since conceptualized and operationalized loyal behavior as remaining silent, confident things will get better in the future (e.g., Farrell 1983; Ping 1993; Paulssen and Bagozzi 2007).

##### *Voice:*

When loyal consumers believe solving relationship problems is desirable, but that the situation won't change through the actions of others, Hirschman (1970) argues they will try to voice the problem and only exit after having voiced the issue fails to improve things. Rusbult, Johnson, and Morrow (1986) operationalized voice as alerting the relationship partner, working out relationship problems and improving objectionable relationship conditions. In contrast to loyal behavior, voice is an active response to relationship problems because the relationship partner attempts to take action in order to deal with problematic

incidents and remedy the relationship (Hirschman 1970; Ping 1997, 1999; Fornell and Wernerfelt 1987). Both, voice and loyal behavior are constructive responses that are generally intended to maintain or revive the current relationship (Geyskens and Steenkamp 2000).

*Neglect:*

Rusbult Zembrodt, and Gunn (1982) identified relationship neglect as an additional response to relationship problems in long-term relationships that occurs before exiting. Ping (1993) has argued that a firm can react to relationship problems by emotionally exiting that relationship, which is by neglecting it. Neglect involves not caring about the relationship, expending no effort to maintain it, and a willingness to let the relationship deteriorate. According to Ping (1993) neglect involves reduced contact and social exchanges with the offending partner firm. Neglect can be seen as a passive response strategy because no action is taken to change the problem at hand. In contrast to loyal response behavior and voice, neglect tends to be destructive in regard to the future of the current relationship (Geyskens and Steenkamp 2000).

From a company perspective it is of pivotal importance that consumers engage in relationship prolonging behavior such as loyal or voicing behavior in reaction to a relationship problem. The reason being, that in general, the longer a customer stays with a company, the more a customer is worth (Reichheld 1996), which has to do with the usually higher costs of attracting new customers than retaining existing ones (Fornell 1992; Fornell and Wernerfeldt 1987). A customer choosing to neglect a relationship is likely to exit at a later stage. Customers voicing a problem however not only provide the company with valuable feedback but also are more likely to remain loyal to the brand over the long-run. Consumers differ in their response tendencies toward service failure encounters depending on the nature of their relationship with the organization (Smith, Bolton, and Wagner 1999).

It is the proposition of this paper, that the degree of *relationalism* in the form of the prevalence of the three norms, *reciprocity*, *flexibility* and *solidarity* in consumer-brand relationships is a key determinant of consumers' choice of a conflict resolution strategy. In relationships high in relationalism, parties view the exchange relationship as important in and of itself (Kaufmann and Stern 1988) and hence should engage in more cooperative and constructive resolution strategies. Further, as relational forms of governance imply continuity

of exchanges and future cooperative intent (Macneil 1980, 1981) parties should engage in problem solving behavior that promotes the relationship to continue. Through recurrent cooperative interaction, parties intentionally create mutual reputations for commitment to the preservation of the relationship leading to more cooperative forms of conflict resolutions (Kaufman and Dant 1988). Similarly, Kaufman and Stern (1988, p. 535) argue that “when ... a serious conflict episode occurs, the norms under which the exchange relationship generally operates will play an important role in determining the parties' reactions to each other's behavior during and after the dispute”. And Dant and Schul (1992, p. 40) contend that reactions to relationship problems are at least partially dependent on “relationship characteristics or the elements defining the character of the exchange relationship itself”. Hence we expect that a high degree of relationalism will lead to the use of more constructive coping strategies, thereby enabling the relationship to continue, while it should discourage destructive coping strategies that lead to the deterioration of the relationship. Hence we propose:

*H1: Relationalism increases the likelihood of constructive coping.*

*H2: Relationalism decreases the likelihood of destructive coping.*

Transgression severity and service failures have received some attention by researchers (see e.g., Maxham and Netemeyer 2002; Gilly and Gelb 1982; Hoffman, Kelley, and Rotalsky 1995; Richins 1983; Weun, Beatty, and Jones 2004). Aaker et al. (2004, p. 14) argue, that in order to understand the severity of transgressions, research needs to specify the contract terms that govern consumer-brand relationships, such as relational norms: “this would further serve to sharpen the conceptualization of transgression events themselves, and provide a framework for understanding transgression severity”. The underlying idea is, that whether a certain incident is perceived as a severe transgression or not depends largely on whether it violates a norm or relational rule (see e.g., Baumeister, Stillwell, and Heatherton 1995; Boon and Holmes 1999). RET norms are conceptualized as rules “of right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behavior” (Macneil 1980, p.38). Kaufman and Dant (1988, p. 535) have argued that, “norms governing commercial exchange relationships affect perceptions of unfair treatment during serious disputes”. Aggarwal (2004) found that depending on the activated relationship norm, consumers found a certain marketing action more or less appropriate. Similarly McGraw and

Tetlock (2005) could show in a scenario based study that certain incidents did not matter as long as they were couched in a relationally acceptable way but had especially negative effects when they violated relationship-expectations. Hence we argue that the extent of relationalism in a consumer-brand relationship should influence the perceived severity of a transgression.

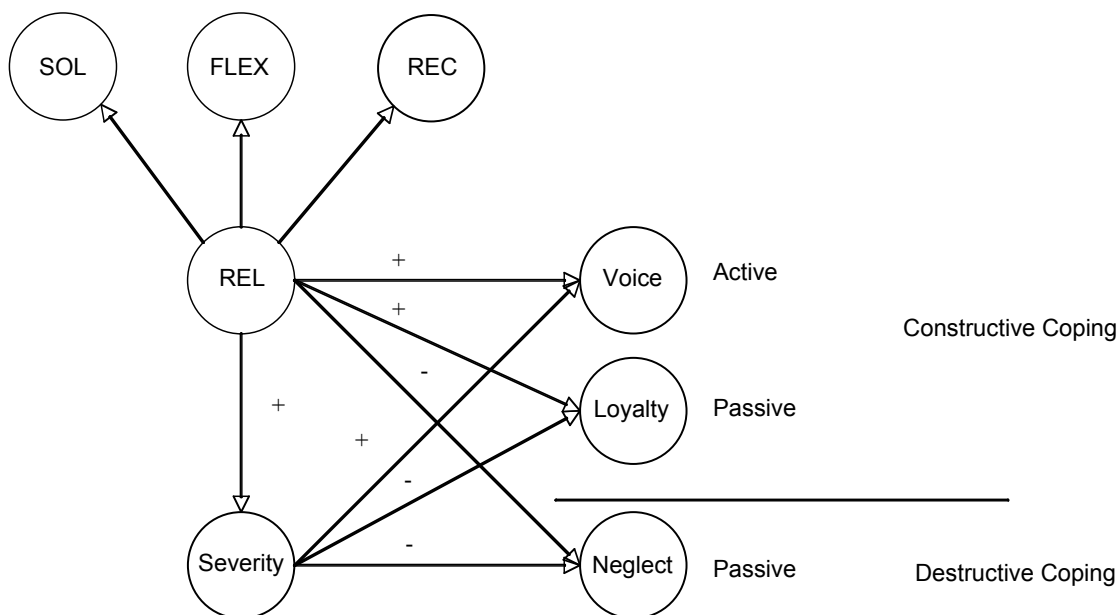
*H3: Relationalism increases the perceived severity of a transgression.*

Apart from the direct effect of relationalism on perceived severity of brand behavior and the choice of coping strategy, we also hypothesize an effect of perceived severity on the choice of a coping strategy. In general it is reasonable to assume that the more severe a consumer perceives a transgression, the more likely he is to act on it and the less likely he is to “let it pass”. High severity should hence lead to more active and less passive coping.

*H4: Severity increases the likelihood of active coping.*

*H5: Severity decreases the likelihood of passive coping.*

Figure 4-1 depicts our proposed model structure.



**Figure 4-1: Proposed Model Structure**

Note: SOL – Solidarity, FLEX – Flexibility, REC – Reciprocity, REL - Relationalism

Few research has investigated the link between RET and other key marketing constructs. An exception is Ganesan's (1994) work, showing that trust and satisfaction have a positive impact on the norm of long-term orientation. Although in general, a positive relationship between REL and key brand relationship constructs like trust, satisfaction and recommendation behavior can be assumed we argue that REL is conceptually different from them. Based on that we assume that they cannot explain differences in coping and trust above REL and that the proposed effects of REL on severity and the effects of REL and severity on coping strategies hold when trust, satisfaction and recommendation behavior are controlled for.

*H6: Trust, satisfaction and recommendation behavior cannot explain differences in coping strategies above REL.*

*H7: Trust, satisfaction and recommendation behavior cannot explain differences in perceived severity above REL.*

*H8: The effects of REL on coping strategies hold when trust, satisfaction and recommendation behavior are controlled for.*

*H9: The effect of REL on perceived severity holds when trust, satisfaction and recommendation behavior are controlled for.*

*H10: The effect of perceived severity on coping strategies holds when trust, satisfaction and recommendation behavior are controlled for.*

In understanding exchange relationships, trust is considered to be a construct of major importance and has been shown to be an essential ingredient for successful relationship marketing (Doney and Cannon 1997; Morgan and Hunt 1994; etc.). Customer satisfaction has generated extensive amounts of research in marketing and can be defined as a consumer's "judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment" (Oliver 1997, p.13). Because customer satisfaction has often been shown to be a weak predictor of loyalty (see e.g., Seiders et al. 2005) some scholars have argued that recommendation behavior is a more predictive measure than satisfaction (Reichheld 2003, p. 48).

## 4.5. Scale Development

Based on Macneil's theoretic work several scales have been developed to measure the extent of a norm orientation in business-to-business relationships (see Kaufman and Dant 1992; Ganesan 1994; Kaufman and Stern 1988; Mohr and Spekman 1994; Jap and Ganesan 2000; Heide and John 1990; Dant and Schul 1992; Noordewier et al. 1990; Lusch and Brown 1996; Kim 2000; Heide 1994; Gassenheimer, Calantone, and Scully 1995; Cannon and Homburg 2001; Cannon and Perreault 1999). The norm scales were based on established scales from the literature and slightly adapted to fit the consumer-brand relationship context (see Table 4-5 in the appendix). Specifically, the *solidarity* scales were based on scales by Heide and John (1992) and Lusch and Brown (1996), *flexibility* scales were based on scales by Heide and John (1992) as well as Kaufmann and Dant (1992) and *reciprocity* scales were based on scales by Ganesan (1994).

## 4.6. Study Design

The banking sector was chosen as an ideal setting for our investigation due to its interactive nature and high customer involvement. 343 bank customers participated in the study either filling out a paper pencil questionnaire or an online questionnaire, 201 of which were completed fully and further served as the basis for evaluation. The sample consisted of a 60.2% working population, 27.4% students and 12.4% others. Average duration of their brand relationship was 5.8 years ( $SD = 5.4$ ) with 37.1% of the participants having a personal bank account representative. Participants were asked about their trust in their bank on three five-point scales ( $\alpha = .81$ ), their recommendation behavior on three five-point scales ( $\alpha = .87$ ) and satisfaction on three five-point scales ( $\alpha = .85$ ). Subsequently they were asked to rate their relationship with their bank on three seven-point solidarity scales ( $\alpha = .78$ ), four seven-point flexibility scales ( $\alpha = .91$ ) and four seven-point reciprocity scales ( $\alpha = .87$ ). Following that, participants were given two scenarios and asked to imagine that this incident would happen in the relationship with their bank. These scenarios were designed to violate the three relationship norms but not constitute a transgression in relationships low on these relationship norms.

The two scenarios read the following:

Scenario 1: *Imagine that five years ago you closed a building loan contract with your bank that requires regular monthly deposits from you. Recently however, you decided to take a sabbatical from work, which means that you will have to get along with a lower income for that time. Hence you inquire at your bank whether you can suspend the monthly payments until you return to your job. An account representative of your bank however informs you that such an option is not provided for in the contract and that you would lose all benefits when suspending your monthly deposits. The bank is not willing to make an exception despite your unique situation.*

Scenario 2: *Imagine that you want to close a long-term oriented savings plan at your bank. In a sales talk with an account representative of your bank, the representative tries to persuade you of the benefits of a certain plan that has a 5 % issue surcharge. It becomes obvious to you that he wants to talk you into making high initial deposits in order to increase his own provisions.*

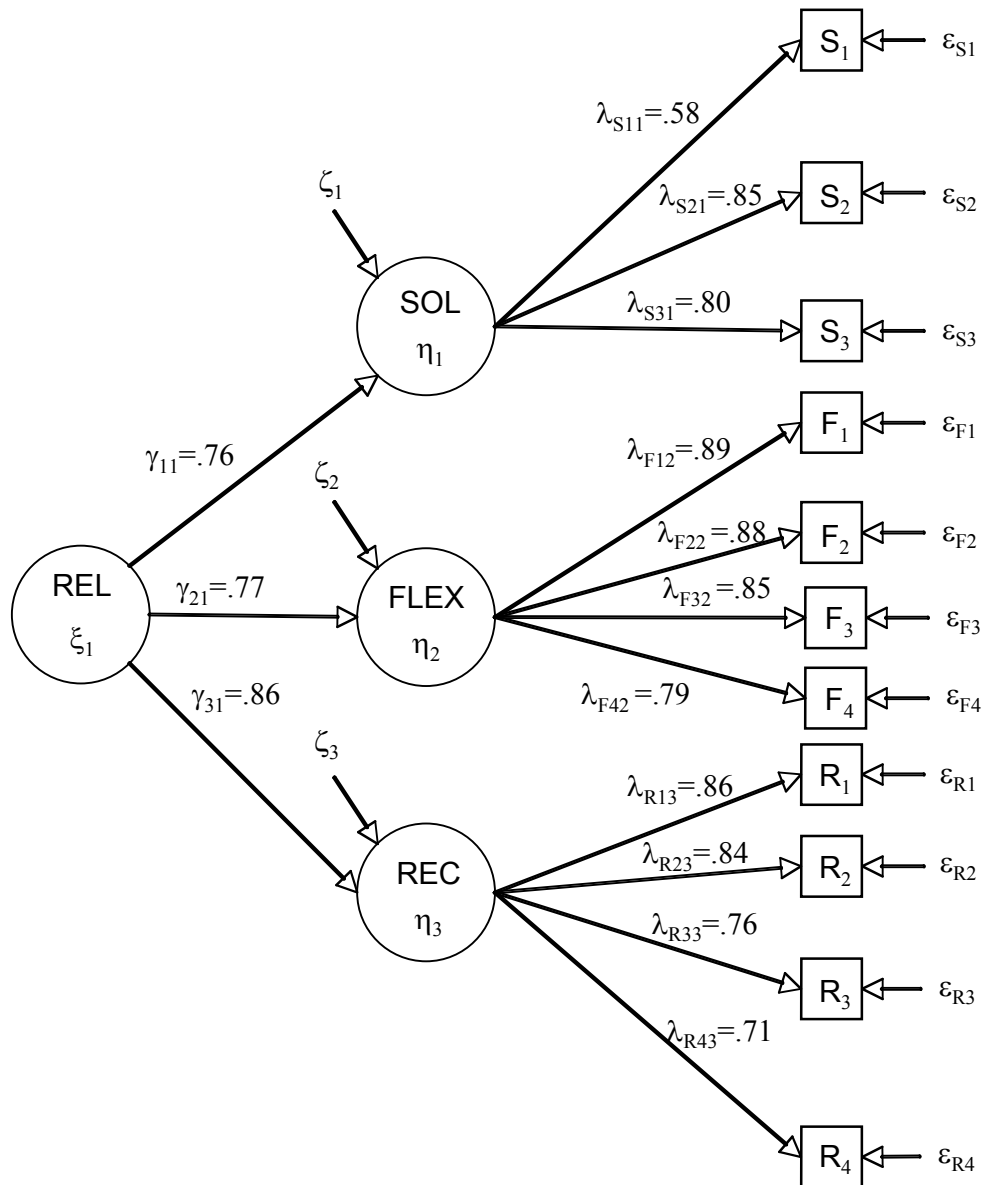
Following each of the two scenarios, participants were asked how severe they would find the incident, in case it would happen in the relationship with their bank, on three seven-point scales (2002; scenario 1:  $\alpha = .91$ ; scenario 2:  $\alpha = .90$ ; see table 4-5 in the Appendix for a description of the items and their origin) and about the likelihood that they would resolve the situation using one of the following strategies on one five-point scale per coping strategy: *loyalty*, meaning remaining silent with confidence that things will eventually get better, *voice*, meaning actively trying to talk with their bank about the issue and trying to find a joint solution, or *neglect*, doing nothing and slowly letting the relationship deteriorate.

## **4.7. Results**

### **4.7.1. Measure Validation Procedure**

For the multi-item measures each set of items was initially subjected to an examination of item-to-total correlations to identify items that did not belong to the specific domain. Subsequently items were subjected to a confirmatory factor analysis to verify the hypothesized factor structure. The relational norm items were hypothesized to have a factor structure with the three factors *solidarity*, *flexibility* and *reciprocity* comprising the higher-order norm

*relationalism* (REL). This structure corresponds to a second-order confirmatory factor model in which the observed items are hypothesized to originate from the three first-order factors and the three first-order factors in turn originate from one second-order factor. The hypothesized factor structure and MPLUS parameter estimates are shown in Figure 4-2. The proposed model showed good fit ( $\chi^2(41) = 68.28$ ,  $p = .00$ , CFI = .98, RMSEA = .057).



**Figure 4-2: Second-Order Factor Model for Relational Norms**

Note: SOL – Solidarity, FLEX – Flexibility, REC – Reciprocity, REL - Relationalism

Evidence of discriminant validity (Fornell and Larcker 1981) between the three norm constructs solidarity, flexibility, and reciprocity as well as trust, satisfaction, recommendation behavior and severity was also obtained: the average variance extracted clearly exceeded the



shared variance of the constructs (see Table 4-1).

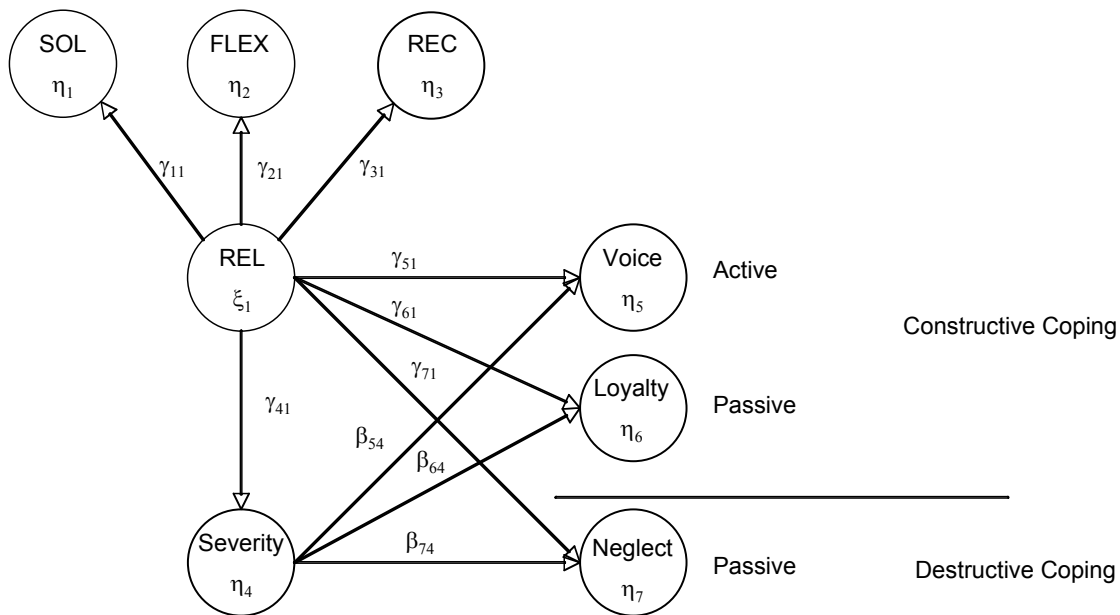
**Table 4-1: Correlations between Constructs**

Construct	1	2	3	4	5	6	7	8
1. Solidarity	<b>.51</b>							
2. Flexibility	.58	<b>.73</b>						
3. Reciprocity	.65	.66	<b>.63</b>					
4. Trust	.39	.23	.33	<b>.60</b>				
5. Satisfaction	.12	.07	.14	.59	<b>.64</b>			
6. Recommendation	.21	.15	.24	.39	.68	<b>.72</b>		
7. Severity (s1)	.18	.17	.13	-.05	-.12	-.05	<b>.80</b>	
8. Severity (s2)	.06	.15	.18	-.11	-.17	.04	.28	<b>.75</b>

NOTE: The average variance extracted for each construct is provided in the diagonal of the matrix. The notation in brackets indicates the scenario: **s<sub>1</sub>** for scenario 1 and **s<sub>2</sub>** for scenario 2. The average variance extracted exceeded the shared variance (squared correlations) with other constructs for all model constructs.

#### 4.7.2. Test of Hypotheses

We tested the proposed model structure for both scenarios. The overall fit for the model was good for both scenarios (scenario 1:  $\chi^2(109) = 156.60$  ( $p=.001$ ), RMSEA = .047, and CFI = .98; scenario 2:  $\chi^2(109) = 165.17$  ( $p=.000$ ), RMSEA = .051, and CFI = .97).



**Figure 4-3: Tested Model Structure**

SOL – Solidarity, FLEX – Flexibility, REC – Reciprocity, REL - Relationalism

#### *Impact of REL on Coping:*

Hypothesis 1 states that relationalism increases the likelihood of constructive coping. Loyalty and voice are constructive coping strategies because they are intended to maintain or revive the relationship. As proposed, REL had a significant positive impact on voice in both scenarios (scenario1:  $\gamma_{51} = .39$ ,  $p < .01$ ; scenario2:  $\gamma_{51} = .40$ ,  $p < .01$ ) and loyalty in scenario 1, however slightly missed statistical significance in scenario 2 (scenario1:  $\gamma_{61} = .18$ ,  $p < .05$ ; scenario2:  $\gamma_{61} = .14$ ,  $p < .10$ ). Hypothesis 2 states that relationalism decreases the likelihood of destructive coping. Neglect can be considered a destructive coping strategy because it lets the relationship deteriorate. As predicted, REL had a significant negative impact on neglect in both scenarios (scenario1:  $\gamma_{71} = -.24$ ,  $p < .01$ ; scenario2:  $\gamma_{71} = -.28$ ,  $p < .01$ ).

#### *Impact of REL on Severity:*

Hypothesis 3 states that relationalism increases the perceived severity of a transgression. As proposed, relationalism had a significant positive influence on perceived severity of the incident in both scenarios (scenario1:  $\gamma_{41} = .20$ ,  $p < .05$ ; scenario2:  $\gamma_{41} = .18$ ,  $p < .05$ ). As was suggested, when consumers carry high expectations towards the solidarity, reciprocity and flexibility of their partner, a transgression that violates these norms is seen as more severe.

**Table 4-2: Effects of REL on Severity and Coping Strategies**

Coping Strategy	Model Fitted	REL $\xi_1$	
		Scenario 1	Scenario 2
Severity $\eta_4$	no controls	$\gamma_{41} = 0.20^* (t = 2.33)$	$\gamma_{41} = 0.18^* (t = 2.09)$
	controls	$\gamma_{41} = 0.25^* (t = 2.47)$	$\gamma_{41} = 0.20^* (t = 2.04)$
Voice $\eta_5$	no controls	$\gamma_{51} = 0.39^* (t = 4.30)$	$\gamma_{51} = 0.40^* (t = 4.32)$
	controls	$\gamma_{51} = 0.44^* (t = 4.12)$	$\gamma_{51} = 0.40^* (t = 3.93)$
Loyalty $\eta_6$	no controls	$\gamma_{61} = 0.18^* (t = 2.15)$	$\gamma_{61} = 0.14 (t = 1.67)$
	controls	$\gamma_{61} = 0.08 (t = 0.84)$	$\gamma_{61} = 0.06 (t = 0.70)$
Neglect $\eta_7$	No controls	$\gamma_{71} = -0.24^* (t = -2.89)$	$\gamma_{71} = -0.28^* (t = -3.28)$
	controls	$\gamma_{71} = -0.29^* (t = -2.87)$	$\gamma_{71} = -0.28^* (t = -2.92)$

All tests of significance are two-tailed. \* $p < .05$

*Impact of Severity on Coping:*

Hypothesis 4 predicts that severity increases the likelihood of an active coping strategy. Voice can be considered an active coping strategy because the consumer actively engages in problem solving by talking about it with a company representative. As proposed, perceived severity had a significant positive influence on voice for scenario 1, however slightly missed significance for scenario 2 (scenario1:  $\beta_{54} = .17, p < .05$ ; scenario2:  $\beta_{54} = .12, p < .10$ ).

Hypothesis 5 predicts that severity decreases the likelihood of a passive coping strategy. Both neglect and loyalty can be seen as passive coping strategies because the consumer does not take any action to resolve the problem. Perceived severity had a significant negative influence on neglect for scenario 2 however slightly missed significance for scenario 1 (scenario1:  $\beta_{74} = -.11, p > .05$ ; scenario2:  $\beta_{74} = -.21, p < .01$ ). No significant effects could be found for severity on loyalty (see Table 4-3).

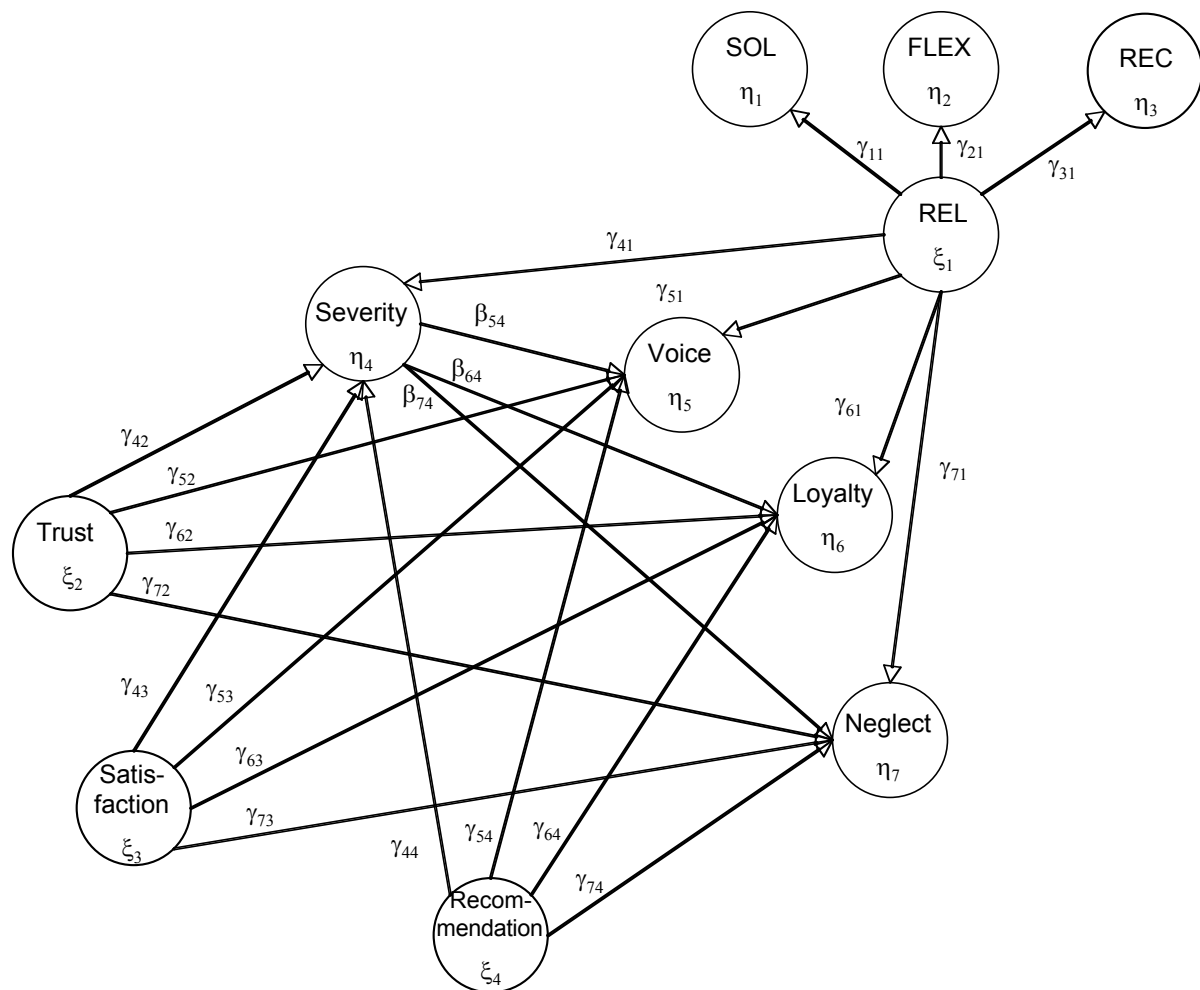
**Table 4-3: Effects of Severity on Coping Strategies**

Coping Strategy	Model Fitted	Severity $\eta_4$	
		Scenario 1	Scenario 2
Voice $\eta_5$	no controls	$\beta_{54} = 0.17^* (t = 2.52)$	$\beta_{54} = 0.12 (t = 1.72)$
	controls	$\beta_{54} = 0.17^* (t = 2.45)$	$\beta_{54} = 0.12 (t = 1.70)$
Loyalty $\eta_6$	no controls	$\beta_{64} = -0.05 (t = -0.64)$	$\beta_{64} = 0.02 (t = 0.32)$
	controls	$\beta_{64} = 0.00 (t = 0.00)$	$\beta_{64} = 0.06 (t = 0.77)$
Neglect $\eta_7$	No controls	$\beta_{74} = -0.11 (t = -1.51)$	$\beta_{74} = -0.21^* (t = -2.89)$
	controls	$\beta_{74} = -0.11 (t = -1.55)$	$\beta_{74} = -0.22^* (t = -3.03)$

All tests of significance are two-tailed. \*p < 0.05

*Effects of Trust, Satisfaction and Recommendation Behavior on Coping:*

In order to test whether relationalism is different from other key relationship marketing constructs we ran models that included trust, satisfaction and recommendation behavior. These models had a good model fit (scenario 1:  $\chi^2(271) = 409.05$  (p=.000), RMSEA = .050, and CFI = .96; scenario 2:  $\chi^2(271) = 386.29$  (p=.000), RMSEA = .046, and CFI = .96).



**Figure 4-4: Tested Model Structure with Trust, Satisfaction and Recommendation Behavior**

Note: SOL – Solidarity, FLEX – Flexibility, REC – Reciprocity, REL – Relationalism

As stated in hypothesis 6, we assumed that neither trust, nor satisfaction, nor recommendation behavior would be able to explain differences in the choice of coping strategies above relationalism. As can be seen in Table 4-4, neither trust nor satisfaction or recommendation did have a significant effect on voice, loyalty or neglect. Hypothesis 8 states that the effect of REL on coping strategies should hold when trust, satisfaction and recommendation behavior are controlled for. The effect of REL on voice and neglect did hold when including trust, satisfaction and recommendation behavior in the model (see Table 4-2). However the effect of REL on loyalty lost its significance. Hypothesis 10 states that the effect of perceived severity on coping strategies would hold when trust, satisfaction and recommendation behavior are controlled for. As hypothesized the effect of perceived severity on voice and neglect did hold when including trust, satisfaction and recommendation behavior in the model (see Table 4-3).

*Effects of Trust, Satisfaction and Recommendation Behavior on Severity:*

Further, as stated in hypothesis 7, we assumed that trust, satisfaction and recommendation behavior would not explain differences in perceived severity of a transgression above REL. As seen in Table 4-4 neither trust nor recommendation behavior did impact on severity. Satisfaction did not significantly impact on severity in scenario 1 however did so in scenario 2 ( $\gamma_{73} = -.27, p < .05$ ). As assumed and stated in hypothesis 9 the effect of REL on severity did hold when including trust, recommendation behavior and satisfaction in the model (see Table 4-2). Interestingly, whereas relationalism showed a positive effect on severity, satisfaction showed a negative effect on severity in scenario 2, meaning the more satisfied a customer was with his bank the less severe he found the transgression. Whereas satisfaction apparently can work as a buffer against perceiving a transgression as severe, relationalism increases perceptions of severity. This also shows the conceptual differences of relationalism and satisfaction. In addition, the fact that relations score high in relationalism does not necessarily mean that consumers are more satisfied, which is mirrored in the relatively low correlations between satisfaction and the three norm constructs (see Table 4-1).

**Table 4-4: Effects of Trust, Satisfaction and Recommendation Behavior on Coping Strategies**

Coping Strategy	Trust $\xi_2$		Satisfaction $\xi_3$		Recommendation Behavior $\xi_4$	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
Voice $\eta_4$	$\gamma_{42} = -0.16$ (t = -1.51)	$\gamma_{42} = -0.16$ (t = -1.49)	$\gamma_{43} = 0.15$ (t = 1.22)	$\gamma_{43} = 0.15$ (t = 1.19)	$\gamma_{44} = -0.02$ (t = -0.19)	$\gamma_{44} = 0.13$ (t = 1.19)
Loyalty $\eta_5$	$\gamma_{52} = 0.08$ (t = 0.76)	$\gamma_{52} = 0.03$ (t = 0.28)	$\gamma_{53} = 0.10$ (t = 0.81)	$\gamma_{53} = 0.13$ (t = 0.99)	$\gamma_{54} = 0.18$ (t = 1.71)	$\gamma_{54} = 0.16$ (t = 1.44)
Neglect $\eta_6$	$\gamma_{62} = 0.12$ (t = 1.04)	$\gamma_{62} = 0.11$ (t = 1.00)	$\gamma_{63} = -0.23$ (t = -1.74)	$\gamma_{63} = -0.19$ (t = -1.47)	$\gamma_{64} = 0.13$ (t = 1.22)	$\gamma_{64} = -0.02$ (t = -0.16)
Severity $\eta_7$	$\gamma_{72} = -0.09$ (t = -0.80)	$\gamma_{72} = -0.10$ (t = -0.90)	$\gamma_{73} = -0.10$ (t = -0.69)	$\gamma_{73} = -0.27^*$ (t = -1.97)	$\gamma_{74} = -0.01$ (t = -0.10)	$\gamma_{74} = 0.21$ (t = 1.84)

All tests of significance are two-tailed. \*p < 0.05

## **4.8. Discussion**

### **4.8.1. Discussion of the Results**

The scale developed for measuring relationalism showed very good scale properties. For the second order model we observed good fit, indicating that, although solidarity, flexibility and reciprocity are different constructs, they are rooted in the higher order construct *relationalism*. The results of both tests for scenario 1 and 2 support our notion that consumers in relationships characterized by high levels of relationalism have a higher likelihood of reacting with a constructive than a destructive coping strategy. In fact it seems that relationalism serves as a buffer against destructive coping.

On the other hand, a high norm orientation toward the relationship partner was also shown to lead to stronger perceptions of severity when an incident violated these norms. The more consumers perceived an incident as severe the more likely they were to choose an active coping strategy and the less likely they were to choose a passive coping strategy. Whereas with incidents perceived low in severity consumers may decide to “let it pass”, when incidents violate the core of their relationship expectations, they are likely to take action.

Tests of discriminant validity showed that relationalism is not the same as trust, satisfaction or recommendation behavior. Further model tests showed that when relationalism was included as a predictor, neither trust, nor satisfaction, nor recommendation behavior could predict the choice of response strategies. Whereas including them into the model did not alter the effect of relationalism on voice and neglect, it did “steal” variance from relationalism in predicting loyalty.

### **4.8.2. Contributions of the Paper**

Although some research has turned to the topic of norms in consumer-brand relationships in recent years, several open questions have remained: first of all, little attention has been devoted to a conceptual discussion of what contract terms may govern consumer-brand relationships (Aaker et al. 2004). Instead most prior research has drawn upon norm concepts from the interpersonal domain without a thorough discussion of whether these norms do

apply to the consumer-brand domain (compare Aggarwal 2004; Aggarwal and Law 2005; Aggarwal and Zhang 2006). This article fills that gap by providing a critical discussion of the nature of consumer-brand relationships and the applicability of the norm concept in general. In our theoretical discussion, while acknowledging that certain limitations may exist we have provided arguments for the transferability of Macneil's (1980) RET framework. Prior research has suffered from conceptual problems, applying communal relationship norms (giving without expecting something in return) without providing evidence whether communal relationships at all exist between consumers and their brands. In contrast we have drawn on norms developed in the context of Relationship Exchange Theory (Macneil 1980), thereby focusing on norms in commercial exchange relationships.

Second, a major problem of recent research has been the lack of research of actual consumer-brand relationships, which prompted Johar (2005, p. 26) to proclaim that it is still unclear whether there is in fact "a norm attached to brand behavior?" Prior research has mainly focused on hypothetical consumer-brand relationships in scenario-based studies. Based on Relationship Exchange Theory we have developed scales for the norms of reciprocity, solidarity and flexibility that have been found in prior research to play an important governing role in business-to-business relationships. An empirical investigation of actual consumer-brand relationships provided evidence for the notion that norms can evolve in consumer-brand relationships. Further, prior research has suggested that norms should guide the differential evaluation of a transgression and reactions following such events (Aaker et al. 2004). Our empirical investigation has found support for both assumptions: transgressions were perceived as more severe when relationships were high in relationalism. Second reaction intentions were influenced by the extent of relationalism above some of the central existing relationship marketing concepts. In a broader picture we thereby also strengthened the notion that consumers do form relationships with brands (Fournier 1998).

Third, our results provided support for Macneil's (1980) notion that most transactions are guided by relational norms. To the best of our knowledge, this study is the first to theoretically and empirically investigate the applicability of relational exchange norms as developed by Macneil (1978, 1980, 1981) and subsequent contributions in the field of marketing (e.g., Heide and John 1992; Jap and Ganesan 2000) to the consumer domain.



### 4.8.3. Managerial Implications

From a managerial perspective the topic of norms is of special interest in order to understand when certain marketing tactics or strategies may potentially violate established brand-specific expectations and, in turn, make consumer behavior more predictable. According to RET, norms “increase the probability of one type of action occurring within the choice set available” (Ivens and Blois 2004, p. 241). In other words, depending on the specific constellation of relationship norms formed over time consumers expect specific brand behaviors and exclude others from their set of tolerable brand behaviors. Norms serve as reference points and determine how acceptable consumers find actual brand behaviors. The outcome of the comparison between observed and expected brand behavior has an impact on the consumer’s reactions. Although there is variance in consumers’ reactions to the same brand behavior, knowing that consumers feel that a specific relational norm has emerged in their relationship with a brand makes certain reactions more likely; even if norms “do not erase individual freedom of choice but contribute to the convergence of plans by increasing the probability of one type of action within the choice set available” (Gloria-Palermo 1999, p. 145). Hence, norms influence the course of action consumers take in reaction to norm relevant brand behavior. This observation can be relevant for companies in several situations. A field where it is of paramount importance is complaint management.

When a person experiences that his relationship partner has behaved in a manner inconsistent with a relational rule or norm, this partner’s behavior is considered a transgression (see e.g., Baumeister, Stillwell, and Heatherton 1995; Boon and Holmes 1999). Surprisingly few studies have been concerned with the question of how consumers react to brand transgressions: “Work focusing on mistakes that companies or brands inevitably make has been rare in relationship research” (Fournier and Brasel 2002, p. 102). From a relationship perspective, transgressions are of pivotal relevance because people derive inferences about their relationship partner especially from negative acts: “Negative behavior seems to provide the perceiver with a window into the dispositional qualities of the person” (Ybarra and Stephan 1999, p. 719). Such inferences may be crucial for a consumer’s willingness to continue a relationship and may thereby threaten a central goal of relationship marketing: building long-term relationships. Understanding which norms are salient in consumer-brand relationships and which behaviors and marketing actions constitute a norm violation is therefore crucial for relationship management. It may allow structuring a company’s

complaint management system. First of all, it can build the starting point for a segmentation of consumers' complaint behavior. By analyzing its customer base's expectations in interactions with the brand, a company may structure the customer portfolio into groups of homogeneous complainers. Second, depending upon the complaint segment and customer norms companies may also develop strategies how to cope with customers who feel that a transgression has taken place. Finally, companies may use knowledge about norms governing consumer-brand relationships in order to train their employees. This is particularly relevant for brands in which customers interact with the brand through employees.

A company would thus be more than well advised to be aware of the relational norms that govern their customer relationships. This knowledge should guide decisions in brand management. In addition, it could also be used to potentially alter prevalent norms so that harmful effects of certain necessary marketing actions can be buffered. The norm-like expectations a customer develops toward a brand are mainly formed through perceptions of signals the brand sends out. Hence, companies should analyze how precisely their communication impacts norm formation. By identifying signals that lead to the formation of norms the company can actively communicate in advance when it cannot conform to certain expectations – before transgressions hurt their customer relationships.

#### **4.8.4. Limitations and Directions for Future Research**

As one of the first attempts to apply Macneil's (1980) RET framework to the consumer domain, this study provides first support for our general notion that certain RET norms can evolve over time in consumer relationships and guide consumers' behavior especially in conflict situations. However several boundary conditions exist concerning the extent to which our results are generalizable to other brand relationship domains. In general, consumer relationships to their banks are characterized by a relatively high degree of interaction. In addition there usually is a high degree of interpersonal contact. Although we specifically asked participants about norms in the relationships with their banks and not their individual account representatives, we cannot exclude that interaction with individuals representing the brand may have played a role in forming expectations. It remains for future research to investigate whether the norms of reciprocity, solidarity and flexibility evolve in consumer relationships where no personal contact to brand representatives exists at all. Further

consumer relationships to their banks usually are characterized by a relatively consistent interaction (the average length of subjects' relationship to their bank was 5.8 years in our sample). In consumer-brand relationships - as compared to the business-to-business context - discrete transactions may be more frequent with fewer real brand relationships evolving (see Fournier, Dobscha, and Mick 1998). Hence future research should determine whether norms operate in all types of consumer-brand relationships.

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## 4.10. Appendix

**Table 4-5: Constructs and Measures**

Scale	Items (Scale)	Standard Loading	M	SD	Item origins
	<b>Solidarity (7-point)</b>	<b>.78*</b>			
SOL1	When problems arise in the course of the relationship with my bank, the parties treat them as joint rather than individual responsibilities.	.58	5.86	1.22	Heide and John (1992)
SOL2	When I incur financial problems, I expect my bank to support me also beyond contractual obligations if necessary.	.85	4.82	1.83	Lusch and Brown (1996)
SOL3	When I incur problems, I expect that my bank will try to help.	.80	5.21	1.72	Lusch and Brown (1996)
	<b>Flexibility (7-point)</b>	<b>.91*</b>			
FLEX1	My bank and I expect that agreements or contracts are renegotiable under certain circumstances.	.89	4.90	1.50	Kaufmann and Dant (1992)
FLEX2	My bank and I expect that we react flexibly if one of us needs to make changes to agreements or contracts.	.88	4.90	1.51	Heide and John (1992)
FLEX3	My bank and I expect to be able to make adjustments in the ongoing relationship to cope with changing circumstances.	.85	5.13	1.36	Heide and John (1992)
FLEX4	When some unexpected situation arises, my bank and I would rather work out a new deal than hold each other to the original terms.	.79	5.01	1.33	Heide and John (1992)
	<b>Reciprocity (7-point)</b>	<b>.87*</b>			
REC1	My bank and I expect, that none of us solely looks for his own individual benefit in this relationship.	.86	4.45	1.73	Ganesan (1994)

Note: \* Construct Reliability; all loadings are significant at  $p < .01$



**Table 4-5: Constructs and Measures (continued)**

Scale	Items (Scale)	Standard Loading	M	SD	Item origins
REC2	In the long run we expect that mutual concessions will even out in this relationship.	.84	4.62	1.55	Ganesan (1994)
REC3	My bank and I expect that mutual concessions are characteristic for this relationship.	.76	4.79	1.41	
REC4	My bank and I expect that our relationship is governed by the principle of fairness.	.71	4.95	1.54	
	<b>Trust (5-point)</b>	<b>.81*</b>			Paulssen (forthcoming)
	I can completely rely on my bank.	.85	3.44	0.85	
	I am convinced that my bank will treat me fairly in the future.	.80	3.55	0.80	
	My bank keeps all the promises that it makes.	.68	3.49	0.89	
	<b>Satisfaction (5-point)</b>	<b>.85*</b>			Gremler and Gwinner (2000)
	How satisfied are you overall with the services provided by this bank?	.72	4.00	1.01	
	Overall, I am satisfied with the decision to use this bank.	.92	4.16	0.94	
	I think I did the right thing when I decided to use this bank.	.82	4.28	0.83	
	<b>Recommendation (5-point)</b>	<b>.87*</b>			Maxham and Netemeyer (2002)
	How likely are you to spread positive word of mouth about your bank?	.89	3.28	1.13	
	If one of my friends was looking for a bank I would advise him to go to mine.	.89	3.52	1.05	

Note: \* Construct Reliability; all loadings are significant at  $p < .01$

**Table 4-5: Constructs and Measures (continued)**

Scale	Items (Scale)	Standard Loading	M	SD	Item origins
	I have already recommended my bank to a friend or colleague.	.76	2.81	1.39	
	<b>Severity Scenario 1 (7-point)</b>	<b>.91*</b>			Maxham and Netemeyer (2002)
	In my opinion the banking problem that I experienced was a minor problem – major problem.	.95	5.61	1.46	
	In my opinion the banking problem that I experienced was a small inconvenience – big inconvenience.	.95	5.40	1.49	
	In my opinion the banking problem that I experienced was a minor aggravation – major aggravation.	.76	5.53	1.65	
	<b>Severity Scenario 2 (7-point)</b>	<b>.90*</b>			Maxham and Netemeyer (2002)
	In my opinion the banking problem that I experienced was a minor problem – major problem.	.91	4.53	1.89	
	In my opinion the banking problem that I experienced was a small inconvenience – big inconvenience.	.91	4.15	1.80	
	In my opinion the banking problem that I experienced was a minor aggravation – major aggravation.	.77	4.92	1.87	

Note: \* Construct Reliability; all loadings are significant at  $p < .01$

## **5. Article 4: When Bad News Really Hurts – the Differential Effect of Message Elaboration in the Light of its Source**

Together with Gita V. Johar and Jaideep Sengupta

To be submitted to *Journal of Consumer Research*

### **5.1. Abstract**

When does bad news weaken consumers' brand attitudes? Consumers are frequently confronted with negative brand information (e.g., in the form of product reviews or consumer reports) without a clear understanding of how credible the information actually is. In our research, we investigate the effect of source credibility and time the source is known on the impact of negative brand information on consumers' attitude strength. In two studies we find that message elaboration is heightened when participants receive information about the source of the negative information after the message – but only when the source is clearly credible or non-credible, not when it is ambiguous. The effect on attitude strength is twofold: when credible source information follows the negative message, a weakening effect to the attitude results from the heightened elaboration. When non-credible source information however follows the message, the heightened elaboration results in a strengthening effect to the attitude. We propose that the quality of elaboration essentially differs depending on whether the negative message is elaborated on in the light of a credible or non-credible source.

### **5.2. Introduction**

Negative brand information is increasingly common for consumers. This is especially true now with the Internet and the rise of Internet blogs allowing average consumers to spread the word about their negative experience with brands. Jeff Jarvis caused a ruckus in 2005 when

he detailed his quest to fix a Dell PC, leading to an outburst in negative customer advocacy, “the computer makers reputation could scarcely be lower...the internet is littered with websites detailing customers’ frustrations of wading through ‘Dell Hell’”(Daily Telegraph, 2/20/07). Negative brand information on the web however is not an isolated phenomenon of tech brands. ACNielsen (2005) found, that of the top 50 UK grocery brands, almost 40% of the first ten Google-search results contained negative brand information ranging from government official sites to individuals’ blogs, whose credibility often remained unclear or become clear only after reading the information. In a recent prominent example the CEO of Whole Foods, posted over a thousand blog entries containing critical reviews of competitor Wild Oats under a pseudonym. The source of these reviews came to light well after consumers had read the original postings (USAToday 7/12/07).

A key question concerns the impact of such negative information on attitudes and attitude strength. Attitude strength concerns “the extent to which attitudes manifest the qualities of durability and impactfulness” (Krosnick & Petty, 1995, p. 3). In this paper we propose that negative information can have either a strengthening or a weakening effect on brand attitudes depending on two critical factors: a) the credibility of the source providing the negative information, and b) whether the recipient is made aware of the source credibility before or after processing the negative information. Specifically we propose that the nature of elaboration that is prompted by the source information differs depending on whether the message is elaborated on in the light of a credible or non-credible source.

We will argue that when consumers are made aware of high source credibility after they have read a negative product message, this will alert them to the relevance of the message and prompt further elaboration of the message. Likewise they should be alerted when they learn after having read the message that it came from a non-credible source, which should also prompt further elaboration. We will further argue and show, that the effect of the heightened elaboration on attitude strength should differ fundamentally depending on the source that prompted it: when elaboration is prompted by a credible source, it should be aimed at maintaining the negative information and hence weaken a prior positive attitude. When elaboration is prompted by a non-credible source however, elaboration should be aimed at overcoming the potential biasing effect of the message and the initial attitude should be strengthened.

### 5.3. Theoretical Framework

An entire research stream has been concerned with the question of what makes persuasive attempts – be it in the form of pro- or counter-attitudinal messages – effective. A key role in the effectiveness of a persuasion attempt is the amount of careful elaboration on the message. Attitudes that are the result of scrutiny on the message's arguments are stronger than attitudes that are based on less effortful thought on the message (see Petty & Cacioppo, 1986; Petty, Haugtvedt, & Smith, 1995; Petty, Priester, & Wegener, 1994, for reviews). They not only have been found to persist longer than attitudes based on less thoughtful processes (e.g., Chaiken, 1980; Elms, 1966; Haugtvedt & Petty, 1992; Verplanken, 1991), but also to be more resistant to counter-attitudinal persuasion attempts (e.g., Haugtvedt & Petty, 1992; Haugtvedt & Wegener, 1994) and – of specific relevance for marketers- more predictive of behavior (e.g., Cacioppo, Petty, Kao, & Rodriguez, 1986; Kallgren & Wood, 1986; Leippe & Elkin, 1987; Verplanken, 1991).

Elaboration on a persuasive message can differ systematically: current theories of attitudes and persuasion such as the elaboration likelihood model (ELM; Petty & Cacioppo, 1981, 1986) and the heuristic-systematic model (HSM; Chaiken, Liberman, & Eagly, 1989) hold that attitude change can be the result of two qualitatively different processes. According to these models, attitude change can be the result of careful and effortful elaboration of a message or less cognitively effortful inferences and associative processes. Because individuals generally seek to hold accurate attitudes (Petty & Cacioppo, 1986), scrutiny of the message will be higher when the source cannot be used as a cue from which to infer its accuracy: receiving a cue that validates a message before the message itself may satisfy recipients and prevent or reduce further scrutiny of the message arguments.

In two experiments Priester and Petty (1995) could show that participants who are low in need for cognition (NFC; Cacioppo & Petty, 1982; i.e., people who do not enjoy careful thinking and are especially miserly in their expenditure of cognitive resources) elaborated less on a message when they knew before that it was from a trustworthy source, than when they knew that it was from an untrustworthy source. Apparently the fact that participants knew about the high trustworthiness was sufficient for them to accept the message and prevented careful argument scrutiny. They further found that argument quality (i.e., whether

arguments of the message were strong or weak) did not have an effect on attitudes when the message came from a trustworthy source; a further indication that participants did not elaborate on the arguments from a trustworthy source. However, when the message was from an untrustworthy source, participants did elaborate carefully on the message and hence messages containing strong arguments influenced participants more than messages containing weak arguments. Priester and Petty (2003) could replicate these findings and show that the higher elaboration led to stronger – more accessible – attitudes.

According to the dual process models (ELM and HSM) source credibility can prevent careful elaboration of a message when given before the message itself. In line with these models research has mostly focused on the role of source credibility when presented before the message. In this article we argue and show that source credibility can also affect elaboration when presented after the message.

### **5.3.1. Source Credibility and Message Diagnosticity**

Source credibility has been conceptualized as a message source's perceived expertise and trustworthiness (e.g., Kelman & Hovland, 1953). Source credibility hence can reveal something about the diagnosticity of the message. Diagnosticity differentiates the message as being relevant from other less relevant information, "the diagnosticity of an input is largely driven by the ability of that input to discriminate the best alternative from the rest" (Alba, Hutchinson, & Lynch, 1991, p. 29) and is conceptually related to Hampton's (1987) concept of *importance*, or Rosch's (1974) *cue validity*. Especially in the marketing domain, where consumers are often confronted with a plethora of brand information of often dubious credibility (e.g., in advertisement claims), high source credibility should lend high diagnosticity to the message, meaning that in contrast to other messages (of unknown credibility) this message is relevant for attitude formation. Argument quality can also serve as a source for diagnosticity of the message when source information is unavailable. However, argument quality of typical brand messages (e.g., advertisements) is often low: "Even a cursory review of advertising reveals that many of the stimuli within an add are devoid of any information about the product itself" (Miniard, Sirdeshmukh, & Innis, 1992, p. 226).

As was outlined, being made aware of the high source credibility of a message before the message can lead participants to simply accept the message as being relevant without carefully elaborating on it (Priester & Petty, 1995, 2003). However, what happens when participants are made aware of the source after they have read a message? Receiving relevant source information after the message carries an element of surprise because it disconfirms expectations. According to Grice's (1975) maxim of manner, recipients expect information to be presented in a manner that is as clear and as orderly as it can be, avoiding any ambiguity or obscurity. Grice developed a theory of *conversational implicature*, according to which conversations are guided by a set of four central tacit expectations people carry. These are *quantity*, *quality*, *relation* and *manner*. When recipients are presented with a cue that contains information about the message's high credibility *after* presenting the message, this should violate the maxim of manner. It should make participants engage in questions like: "Why am I being told this now? Obviously, this has relevance to the message I just read."

It has been found in several studies that violating expectations prompts careful elaboration. Maheswaran and Chaiken (1991) found that when message quality differed from participants' expectations, the message was processed more carefully. Likewise Baker and Petty (1994) showed that participants expect the majority to agree with their position and the minority to disagree. A violation of this expectation led to higher message scrutiny. Smith and Petty (1995) found that people who expected a negatively framed message and received a positively framed (or vice versa) engaged in more careful processing of that message. The effect of disconfirmation of expectations on elaboration has also been shown in research on causal attribution (e.g., Pyszczynski & Greenberg, 1981; Wong & Weiner, 1981) and on impression formation (e.g., Fiske & Neuberg, 1990; Hastie, 1984; Srull & Wyer, 1989) showing that perceivers engaged in increased effortful processing after their expectations were disconfirmed (see Olson, Roese, & Zanna, 1996; Stangor & McMillan, 1992, for reviews). Similarly, Miller and Kahn (2005) found that violating consumers' conversational expectations by giving them ambiguous color names led to higher elaboration.

Hence, opposed to previous studies, which found that presenting high source credibility *before* the message could prevent message elaboration, we propose that presenting credible source information *after* the message can actually increase elaboration. In contrast, unclear source credibility information should not prompt further elaboration because it does not reveal any further relevant information about the diagnosticity of the message.

Similar to learning that the source is very credible after the message is presented, learning that the source is very non-credible after the message should also violate expectations and result in heightened elaboration. Grice (1975) formulates this in his maxim of quality. The maxim of quality states that recipients expect the information not to be false or stating something for which adequate evidence is lacking. When consumers receive a brand message and are told afterwards that it was from a non-credible source they should engage in thoughts like, “Why am I being told this now? If the message was not credible, why was I given it in the first place?” Elaboration prompted by non-credible source information should be aimed at removing the potential bias from the invalid brand message. Hence, although elaboration should be heightened in both cases, quality of elaboration should differ. This will be outlined in the following.

### **5.3.2. Differential Effects of Elaboration on Attitude Strength**

Consumers usually carry positive attitudes towards their brands. Hence when negative brand information is encountered, the new information is inconsistent with consumers’ prior attitude. Different predictions prevail in the literature concerning the effect of elaboration on attitude inconsistent information. Traditionally it has been argued that greater elaboration should lead to stronger attitudes (Petty et al., 1995). We propose that the effect of elaboration on attitude strength should differ depending on the credibility of the source. Specifically we argue that elaboration on attitude inconsistent information from a non-credible source has refutational character – aimed at overcoming the persuasive attempt and refuting possible structural inconsistencies of the attitude. This refutational elaboration should result in a strengthening of the attitude. Conversely, elaboration on inconsistent information from a credible source should have the opposite effect: increased elaboration should lead to the maintenance of the structural inconsistencies, resulting in a weakening of the attitude.

#### *Strengthening Effect of Elaboration:*

Based on the premise that people are spontaneously motivated to arrive at an integrated evaluation (Hastie, 1980; McGuire, 1981; Srull & Wyer, 1989) careful consideration of positive and negative aspects in relation to each other may create an integrated judgment (Maheswaran & Chaiken, 1991; Srull & Wyer, 1989). By drawing on the heuristic-systematic model, Jonas, Diehl, and Brömer (1997) showed that inconsistent brand information



decreased participants' confidence in their attitude prompting systematic processing of the relevant information. This systematic processing in turn increased structural consistency between attitudes and behavioral intentions.

*Refutational Elaboration:*

When encountering a persuasive attempt from a non-credible source, elaboration should be aimed at removing the potential bias. Research on correction processes supports this view. Past research has shown that when individuals become aware of a persuasion attempt, they may attempt to correct for the influence by adjusting their attitude in the opposite direction of the persuasion attempt (Wegener & Petty, 1995). Correction processes like these are based on implicit theories people hold about their own cognitive processes (Jost, Kruglanski, & Nelson, 1998). For example, when people believe that a contextual factor such as source trustworthiness influences them unfavorably, correction instructions cause them to adjust their judgments away from that influence, but when they believe that the context influences them negatively, the instructions cause them to adjust their judgments toward the context (Jost, Kruglanski, & Nelson, 1998).

Specifically research has revealed recipients' active counter-arguing as a key mechanism through which recipients resist persuasion (e.g., Brock, 1967; Killea & Johnson, 1998; Petty, Ostrom, & Brock, 1981). Tormala and Petty (2002) found that not only did counter-arguing lead recipients to resist the persuasion attempts but it actually made them more certain of their original attacked attitudes. They proposed a meta-cognitive framework, arguing that people perceive their own resistance, reflect on it and in turn form attribution-like inferences about their own attitudes. In a series of experiments participants were presented with counter-attitudinal messages and instructed to counter-argue. When they successfully counter-argued, their initial attitudes became more certain than they had been on the outset. Specifically, when participants believed persuasive messages to contain strong arguments, resisting strengthened the attitude, not so however when messages were perceived as weak. Hence, only when participants believed that they had overcome a strong persuasive attempt, they reasoned, that their initial attitude must have been very valid otherwise it would not have resisted their attack. Such an attribution-like inference however is only justified when a strong, not when a weak attack is overcome.

Based on these findings we argue that when elaboration is prompted by non-credible source information elaboration on the message should be in the light of this new information. People should engage in meta-cognitive thinking, wondering whether the message from a non-credible source potentially did influence their attitude. Similar to when participants are being made aware of a persuasive attempt, elaboration should resemble the counter-arguing in Tormala and Petty's (2002, 2004) work in that it is aimed at refuting the message's impact on the attitude. As a result this refutational elaboration should lead to a rejection of the message's inconsistent negative information and similar to Tormala and Petty's findings result in stronger attitudes, and in line with Wegener & Petty's (1995) findings also in more positive attitudes.

*Weakening Effect of Elaboration:*

In a different perspective, research on the structure-strength relationship has argued that an attitude based on inconsistent elements should be weaker than an attitude based on mutually consistent elements. The existence of separate conflicting dimensions increases the likelihood that attitude and behavior are based on discrepant elements lowering the correspondence between them (Lavine et al., 1998). Structural inconsistencies that exist and are not reconciled have been shown to lower attitude stability (Rosenberg, 1968) and the attitude-behavior link (Norman, 1975). In addition response competition between conflicting evaluations should reduce attitude accessibility (Bargh et al., 1992; Bassili, 1998). In recent research Sengupta and Johar (2002) found that elaboration on inconsistent information decreases attitude strength when conditions are unfavorable for reconciliation. Under most conditions individuals should be motivated to arrive at an integrated evaluation by reconciling inconsistent information (Hastie, 1980; Maheswaran & Chaiken, 1991; Srull & Wyer, 1989). However under certain circumstances (e.g., individuals' motivation to minimize regret) individuals may be motivated to maintain evaluative inconsistencies. Under these conditions, Sengupta and Johar found that elaboration of inconsistent information actually led to weaker as opposed to stronger attitudes.

*Maintenance Elaboration:*

It was proposed above that receiving high source credibility information after the message should lend further diagnosticity to the message. This in turn should prompt additional elaboration on the message. In the light of the newly acquired information that the message was of importance for attitude formation it should be weighted more heavily. Receiving the

source info after the message was already scrutinized should also alert the recipient to the question whether he took the message into account sufficiently. In contrast to when elaboration is in the light of a non-credible source with a refutation aim, when elaboration is prompted by a credible source it should be aimed at making sure the information *was indeed* taken into account. Hence we propose that elaboration prompted by a highly credible source should lead to the maintenance of structural inconsistencies and in line with theories on the structure-strength relationship lead to weaker attitudes.

Summarizing, we assume that when the source of the inconsistent message is credible, and people learn of this source after the message, this should prompt elaboration, which in turn should weaken the attitude. We test this proposition in experiment 1. In contrast, when the elaboration is prompted by a non-credible source we expect the elaboration to strengthen the attitude. We will test that assumption in experiment 2.

#### **5.4. Experiment 1: Weakening Effect of Elaboration on Attitude Strength**

This experiment is concerned with the effect of credible vs. ambiguous source credibility and the time consumers learn about the source on elaboration and the effect of the resulting elaboration on attitude accessibility. Attitudes can be seen as associations between objects and evaluations (Fazio, et al., 1982). The strength of the object-evaluation association can vary. This associative strength is the major determinant of attitude accessibility, the likelihood that the attitude will be activated from memory when the individual encounters the attitude object. Central measure for attitude accessibility is the latency with which individuals respond to an inquiry about their attitudes. The reasoning for this is, that the more accessible an associated evaluation is from memory, the less cognitive work an individual would have to do to respond to an attitudinal inquiry and the more automatic such a process would be (Fazio, 1995). The link between associative strength and automatic activation has been shown in several studies (e.g., Bargh et al., 1992; Sanbonmatsu, Osborne, & Fazio, 1986) and has been shown to be of high reliability in meta-analytic studies (Fazio, 1993). Several studies have validated response time latency as a valid predictor of other facets of attitude strength: Houston and Fazio (1989) found that more accessible attitudes are more stable over time than less accessible ones. Similarly Bassili and Fletcher (1991) found that more accessible attitudes are more resistant to counter-arguments. Concerning the attitude behavior

link it has been found that enhancing the strength of the attitude accessibility led to an increase in attitude-behavior consistency (Fazio et al., 1982), and that voters' attitudes were far more predictive of actual voting behavior when they were highly accessible. Similarly in a consumer context, Fazio, Powell, and Williams (1989) found that the more accessible subjects' attitudes were towards consumer products, the more predictive they were of their actual product selection. Comparing, response time latencies, an implicit measure of attitude strength, with respondents' self expressed confidence in their attitudes, an explicit measure of attitude strength, Bassili (1993) found response time latencies to be a better predictor of actual voting behavior than voters' expressed attitudinal confidence.

Experiment 1 was designed for two purposes: first to investigate whether giving credible source information but not ambiguous source information after the message would prompt additional elaboration on the message. Second, to test whether the elaboration on the additional negative information would weaken the overall attitude. As argued above, when consumers receive negative brand information that is inconsistent with prior positive information, this may lead to attitudinal conflict and result in ambivalence. Attitude ambivalence involves a response competition between the positive and the negative components of the attitude, which has been shown to lead to higher response times (Bargh et al., 1992). Hence we assume that the extended elaboration on the negative information from a credible source should lead to a response time competition and hence extended response time latencies.

#### **5.4.1. Design and Procedure of Study 1**

Eighty students at Columbia University participated in the 2 x 2 experiment manipulating source credibility (high vs. ambiguous) and time the source information was given (before vs. after negative brand information). Participants were informed that the experimenters were interested in evaluations of a new DVD-player, the VX-5000. All participants were initially presented with attribute information allegedly from an independent consumer research agency about the VX-5000 and two competitors' brands, aimed at eliciting an initial positive brand attitude towards the VX-5000. After reading the initial information, participants were given additional information about the VX-5000 that reportedly came from a Google-search on the brand. Both, the initial positive as well as the additional negative information

contained eight pieces of information. Whereas the initial information focused on picture quality attributes, the additional information focused on the durability and workmanship of the DVD-player. By focusing on different attributes we aimed to avoid that initial and additional information would contradict each other. Participants were either presented with a description of the website that contained the product evaluation or with the product evaluation itself at first. Participants who first read the description of the website were given the product evaluation after reading the information about the source and vice versa. The product evaluation information was the same in all four conditions. Participants were either told that the source was the official website of the *Consumer Union*, describing it in a way aimed at eliciting highly credible evaluations of the site or that the source was a website where consumers freely publish their own evaluations. This site was described in a way aimed at eliciting ambiguous evaluations of source credibility: Participants were told that this site had been criticized in the past for publishing reports of dubious credibility, and that it was not always clear whether the published statements were consumers' honest opinions.

This was followed by a reaction time procedure, aimed at measuring participants' attitude accessibility. We thereby followed a procedure and instructions recommended by Fazio (1990). We specifically instructed participants to react as quickly and as accurately as possible. We instructed them to press the "agree" button when they agreed or even mildly agreed with the statement concerning the VX-5000 and to press the "disagree" button when they disagreed or even mildly disagreed with the statement. Participants were first confronted with a practice trial, and were then given two attitudinal statements concerning the VX-5000. This was followed by three seven-point attitude scales ( $\alpha = .96$ ). Subsequently participants were asked to list their thoughts concerning the negative information about the VX-5000 and afterwards asked to rate the amount they elaborated on the additional negative information on two seven-point scales ( $\alpha = .84$ ). As a manipulation check of the credibility manipulation subjects were then asked on two seven-point scales how credible they found the source ( $\alpha = .90$ ).

### 5.4.2. Results of Study 1

**Table 5-1: Weakening Effect of Elaboration on Negative Brand Information**

	High Source credibility		Ambiguous source credibility	
	Before	After	Before	After
Credibility	5.20 (1.30)	5.73 (1.11)	3.34 (1.01)	3.67 (1.29)
Subjective				
Elaboration	4.86 (1.12)	5.60 (0.79)	4.53 (0.98)	4.16 (1.61)
Objective				
Elaboration	1.29 (1.38)	2.25 (1.41)	1.10 (1.12)	1.00 (1.11)
Attitude	4.59 (0.89)	4.05 (1.48)	4.92 (0.77)	5.02 (1.07)
Accessability				
(msec)	1151.38 (542.35)	1677.76 (946.71)	1317.10 (680.77)	1110.89 (357.60)

Note. – Standard deviations are in parentheses

Analyses were conducted in the context of a 2 x 2 ANOVA (source credibility: high vs. ambiguous; time source is known: before vs. after negative information), unless otherwise mentioned.

*Manipulation Check Credibility.* Analyses suggested that the manipulation of the source credibility worked as intended. Participants in the conditions with the information coming from a highly credible source considered the source to be fairly credible ( $M=5.46$ ), whereas participants in the conditions where source was meant to induce an ambiguous impression concerning credibility on average rated the credibility to be unclear ( $M=3.50$ ). A main effect of credibility ( $F(1,73) = 52.49$ ,  $p < .01$ ) could be found.

*Amount of Elaboration.* We expected that receiving the source after the negative information would lead to higher amounts of elaboration on the negative information when the source is credible but not when source is ambiguously credible. Analyses on subjects' subjective sense of their elaboration on the negative information revealed a main effect of credibility ( $F(1,76) = 11.76$ ,  $p < .01$ ) and an interaction effect ( $F(1,76) = 4.60$ ,  $p < .05$ ). Further, a t-test revealed a significant difference in subjective elaboration between condition 1 (high source credibility; before) and 2 (high source credibility; after;  $t(1,39) = -2.45$ ,  $p < .05$ ). The total number of thoughts listed by the participants on the additional negative information further provided an indication of the extent to which the negative information on the VX-5000 was elaborated on

(see Sengupta & Johar, 2002). Analyses revealed a main effect of credibility ( $F(1,76) = 6.42$ ,  $p < .01$ ) as well as an interaction effect ( $F(1,76) = 3.53$ ,  $p < .10$ ). Further, a t-test revealed a significant difference between condition 1 and 2 ( $t(1,39) = -2.21$ ,  $p < .05$ ).

*Attitude.* No assumptions were made about the effect of increased elaboration on negative information from a credible source on the attitude itself. ANOVA results only revealed a main effect of credibility ( $F(1,76) = 7.10$ ,  $p < .01$ ).

*Attitude Accessibility.* We expected that the extended elaboration on the additional negative information on the VX-5000 should lead to a response competition and hence extended response time latencies. Response time latencies were analyzed in a manner recommended by Fazio (1990). Data was screened for outliers; in addition, in order to deal with the problem of individually different baseline response times we used the mean latencies from the practice trials as covariates, as is commonly employed (see Smith & Lerner, 1986; Fazio, 1990). Mean latencies across two attitude statements served as dependent variables in an ANCOVA. Analysis revealed a significant interaction effect ( $F(1,74) = 5.56$ ,  $p < .05$ ). Further contrasts between condition 1 and 2 revealed significant differences ( $F(1,37) = 4.19$ ,  $p < .05$ ).

### **5.4.3. Discussion of Study 1**

According to ELM and HSM, giving credible source information prior to the message can potentially prevent careful argument scrutiny for participants low in NFC (Priester & Petty, 1995). Our results do not show such a difference in elaboration when source is presented before the message: participants who received the credible source information before the message did not elaborate less on the message than those receiving ambiguous source information before the message. This may be due to the fact that we did not differentiate between people who are high and low in NFC.

However in line with our prediction, we found that elaboration was elevated when credible source information followed the message as compared to when it preceded it, not however when ambiguous source information followed the message. Neither ELM nor HSM can explain these differences. According to them, amount of elaboration should have been the same independent of whether the source information after the message was credible or

ambiguous. Our results hence suggest that the credible source prompted further elaboration on the message, but not the ambiguous source. Presenting credible source information after the message seems to have served as a marker, to recall the just processed information and make sure it was firmly understood.

Further, as hypothesized, the heightened elaboration on the inconsistent negative brand information led to a weakening of the attitude as measured by response latencies. Participants receiving the credible source information after the message showed the longest response latencies. In line with past research on the effect of structural inconsistencies on attitude strength, inconsistent brand information apparently led to higher attitudinal conflict. As proposed elaborating on negative brand information in the light of a highly credible source apparently maintained the structural inconsistencies in the attitude.

## **5.5. Experiment 2: Strengthening Effect of Elaboration on Attitude Strength**

Experiment 2 was conducted for three purposes: first, to replicate the weakening effect of increased elaboration on credible inconsistent information on attitudes; second, to investigate whether elaboration similarly increases when consumers learn about a non-credible source after receiving the message as opposed to before; third, to examine the effect of elaboration on a message from a non-credible source on attitude strength. Different from elaboration that is prompted by a credible source we argue that elaboration prompted by a non-credible source should differ qualitatively, aimed at refuting structural inconsistencies and hence lead to stronger attitudes and in line with Wegener and Petty's (1995) research on bias correction to more positive attitudes.

### **5.5.1. Design and Procedure of Study 2**

Sixty-eight students at Columbia University participated in the 2 x 2 experiment manipulating source credibility (high vs. low) and time of source information (before vs. after negative information). The procedure was similar to that of study 1 with the difference that in contrast to study 1, the low source credibility information was aimed at eliciting highly non-credible evaluations. Specifically, participants in the low source credibility conditions were



told that the information was from a competitor's website that allegedly has a history of competing very aggressively and has already gotten into several litigations for publishing tests of dubious validity.

As in study 1 participants were either given the negative information first and the source information later or vice versa. After that a reaction time procedure was used, aimed at measuring participants' attitude accessibility (the same procedure as in study 1 was used, based on instructions by Fazio, 1990). Participants were asked to answer as quickly and accurately as possible by clicking either a key on the keyboard that was assigned to the answer "agree" or a key that was assigned to the answer "disagree". After a practice trial they were asked to agree or disagree as fast as possible with two attitudinal statements concerning the VX-5000. This was followed by three attitude questions ( $\alpha = .95$ ). Subsequently participants were asked to list their thoughts concerning the negative information about the VX-5000. Following that, participants were asked to rate the amount they elaborated on the additional negative information on two seven-point scales ( $\alpha = .82$ ). As a manipulation check of the credibility manipulation, subjects were then asked on two seven-point scales how credible they found the source ( $\alpha = .97$ ).

### 5.5.2. Results of Study 2

**Table 5-2: Weakening and Strengthening Effect of Elaboration on Negative Brand Information**

	High Source credibility		Low source credibility	
	Before	After	Before	After
Credibility	5.22 (1.50)	5.63 (0.97)	2.53 (1.23)	2.53 (1.17)
Subjective				
Elaboration	4.94 (0.96)	5.78 (1.15)	3.18 (1.33)	4.47 (1.03)
Objective				
Elaboration	1.38 (0.96)	2.33 (1.33)	0.79 (0.92)	1.47 (1.25)
Attitude	4.44 (1.23)	4.41 (1.55)	4.88 (1.92)	5.67 (0.94)
Accessibility				
(msec)	1787.91 (665.16)	2123.44 (854.55)	1847.63 (913.33)	1348. (366.65)

Note. – Standard deviations are in parentheses

Analyses were conducted in the context of a 2 x 2 ANOVA (source credibility: high vs. low; time source is known: before vs. after negative information), unless otherwise mentioned.

*Manipulation Check Credibility.* Analyses suggested that the manipulation of the source credibility worked as intended. Participants in the conditions with the information coming from a highly credible source considered the source to be fairly credible ( $M = 5.42$ ), whereas participants in the conditions with the information coming from a low credible source considered the source to be rather non-credible ( $M = 2.53$ ). A main effect of credibility ( $F(1,59) = 85.95, p < .01$ ) could be found.

*Amount of Elaboration.* We expected that elaboration should be higher when either high or low source credibility is given after the negative information than when it is given before the information. Analyses on subjects' subjective sense of elaboration on the negative information revealed a main effect of credibility ( $F(1,64) = 30.55, p < .01$ ) and time of information ( $F(1,64) = 14.66, p < .01$ ), further, t-tests revealed significant differences between condition 1 (high source credibility; before) and 2 (high source credibility; after;  $t(32) = -2.29, p < .05$ ) as well as between condition 3 (low source credibility; before) and 4 (low source credibility; after;  $t(32) = -3.09, p < .01$ ). As in study 1, the total number of thoughts listed by the participants on the additional negative information further served as an indicator of the extent to which the negative information on the VX-5000 was elaborated on (see Sengupta & Johar, 2002). Analyses revealed a main effect of credibility ( $F(1,64) = 7.05, p < .01$ ) and time of information ( $F(1, 64) = 8.94, p < .01$ ). T-Tests between condition 1 and 2 showed significant differences ( $t(32) = -2.39, p < .05$ ) as well as between condition 3 and 4 ( $t(32) = -1.83, p < .10$ ).

*Attitude.* Analysis revealed a main effect of credibility ( $F(1,64) = 7.66, p < .01$ ). Based on the findings on bias correction (Wegener & Petty, 1995) we expected that participants who, after having read the negative information about the VX-5000, learn about the non-credible source of the information should re-adjust their attitude towards a more positive attitude. A t-Test between condition 3 and condition 4 revealed that participants in condition 4 in fact did have the highest attitudes ( $t(32) = -2.09, p < .05$ ).

*Attitude Accessibility.* Analysis of reaction time latencies were conducted in the manner described in experiment 1 with mean latencies from the practice trials serving as covariates and mean latencies of two attitude measures serving as dependent variables in an ANCOVA. Analysis revealed a main effect of credibility ( $F(1,62) = 2.87, p < .01$ ) and an interaction

effect ( $F(1,62) = 5.99$ ,  $p < .05$ ). As in study 1 we expected that the extended elaboration on credible negative information should lead to a weakening effect of the attitude and hence to the highest latencies in condition 2. Contrasts between condition 1 and 2 slightly missed significance. However, contrasts between condition 2 and condition 1, 3, 4 revealed that participants in condition 2 did have the highest reaction times over all conditions ( $F(1,64) = 4.88$ ,  $p < .05$ ). We further expected that the extended elaboration on the information from a non-credible source should lead to a strengthening effect and hence to the lowest latencies. Contrasts between condition 3 and 4 were significant ( $F(1,30) = 4.17$ ,  $p < .05$ ). Likewise contrasts between condition 4 and condition 1, 2, 3 revealed that participants in condition 4 had the lowest reaction times over all conditions ( $F(1,64) = 6.09$ ,  $p < .05$ ).

### **5.5.3. Discussion of Study 2**

We were able to replicate our main findings from study 1 in study 2: presenting participants with a credible source after the message increased elaboration. The increased elaboration in turn apparently led to the maintenance of structural inconsistencies of the attitude, resulting in weaker attitudes as found in the highest response latencies. In addition, as assumed, also presenting non-credible source information after the message led to higher elaboration compared to when it was presented before the message. Neither ELM nor HSM would have predicted such a difference. Similar to receiving credible source information after the message, receiving non-credible source information after the message prompted further elaboration.

As predicted, the effect of elaboration that was prompted by the non-credible source information differed from the effect of elaboration prompted by credible source information. In line with Wegener and Petty's (1995) findings, the extended elaboration resulted in more positive attitudes. Apparently being made aware of the non-credible source after the message alerted participants of the potential biasing effect of the message. As a result, they apparently tried to correct for the false negative message, which resulted in a more positive attitude. In addition to the effect on the attitude we could further show an effect on attitude strength. Similar to Tormala and Petty's (2002, 2004) finding that actively counter-arguing a message strengthens the original attitude, being made aware of the potential biasing effect of a non-credible message similarly strengthened the initial attitude.

Although elaboration is heightened when non-credible source information follows the message, as opposed to when it precedes it, our results also show that elaboration is lower when receiving non-credible source information as opposed to credible source information before the message. This finding is not in line with prior findings in the tradition of the dual process models which found that information from untrustworthy sources actually tends to be elaborated on more than from trustworthy sources (e.g., Priester & Petty, 1995).

## **5.6. General Discussion**

When consumers incur negative brand information, how does it affect their attitudes and the strength of their attitudes? In the current study we investigated the effect of source position relative to the message and the source credibility on elaboration and resulting attitude strength. Two major findings emerged. The first concerns the role of the source in prompting further message elaboration, meaning the source's role in influencing the quantity of elaboration. The second concerns the differential effect of elaboration on attitude strength. Concerning the relative role of source position, current research holds that source information can prevent elaboration when presented before the message because it leads recipients to accept the message without elaborating carefully on the quality of the arguments. In this article we proposed and showed that when consumers received credible or non-credible source information after the message, the source information prompted further elaboration on the message. Hence we extended current research on the role of cue position by showing that a) a cue can affect elaboration also when given after the message as opposed to before, and b) only when that cue is relevant (i.e. credible or non-credible source information) elaboration is prompted. A non-diagnostic cue, such as source information that is ambiguous did not prompt further elaboration.

Our findings imply a difference in quality of elaboration. Little research has dealt with the quality of elaboration as opposed to the quantity of elaboration. Recent research on persuasion has been concerned with the role of people's meta-cognitions (Tormala & Petty, 2002, 2004) and has shown that people engage in meta-cognitive processes inferring information about the validity of their own attitude from their own counter-arguing of persuasive messages. In a similar vein, when recipients are made aware after the message of the lack of its credibility, they are likely to wonder whether the information did not invalidly

impact their judgment. This is nicely illustrated in a comment one of our participants in experiment 2 gave who had received non-credible source information after she had read the negative message: „Well it’s hard not to think about it because I read it before I knew that the credibility of the source was no good. So while I know that the negative information may not be true it’s still sort of in the back of my head.“ Being made aware of the potential biasing effect of the invalid brand information, elaboration is likely to be aimed at refuting the persuasive attempt. Such elaboration should qualitatively differ from elaboration in the light of a credible source that prompted it. Whereas in the case of a non-credible source recipients should engage in meta-cognitive processes concerned with whether the invalid message impacted their judgment *too much*, recipients who received the credible source should be concerned whether the valid message did impact their judgment *sufficiently*. Hence elaboration in the latter case should be aimed at maintaining the structural inconsistencies of the attitude caused by the inconsistent information. This notion is in line with current meta-cognitive conceptualizations of attitude formation (Petty, 2006; Petty et al., 2007).

Concerning the effect of elaboration on attitude strength, our results showed that extended elaboration on attitude inconsistent information can do both: strengthen and weaken an attitude. What effect the quantity of elaboration has on attitude strength should depend on the quality of elaboration. We could thereby extend recent research (Sengupta & Johar, 2002) that investigated the effect of inconsistent information on attitude strength by showing that whether a strengthening or weakening effect results also depends on source credibility and time participants learn about the source. In addition, recent research that has been concerned with meta-cognitive processes in overcoming persuasive attempts has solely focused on a strengthening effect of attitudes (Tormala & Petty, 2002, 2004). Our research extends this work by suggesting that meta-cognitive processes may result in weakening effects likewise.

In addition to the theoretical contributions, our research provides interesting practical insights for consumer researchers and practitioners. Despite the prevalence of negative information about brands especially with the rise of consumer complaints on Internet blogs, the effect of information inconsistencies on consumers’ brand attitudes has remained a research field with relatively little attention devoted to (Sengupta & Johar, 2002). In the modern marketing sphere, receiving information about brands of invalid source credibility or learning about the credibility after having heard or read the message becomes increasingly common. Sources like the Internet provide outraged consumers and cunning competitors alike with a quick tool

to publish their comments without revealing their identities. Hence, how worried should marketers be about the increasing amount of negative messages about their brands? Our results are two-fold: when allegations are from non-credible sources and consumers find out about this, marketers do not need to worry too much, even when consumers learn of the invalidity of the message after they have already processed the message. On the contrary, our results suggest that such an attack on the brand may even strengthen consumers' attitudes. On the other side, our results suggest that mentioning the credible source after the message can strengthen the persuasive impact of a counter-attitudinal message, leading to weaker attitudes. Something companies may want to engage in when planning an attack on competitors' brands.

Our results may further provide interesting insights for companies' communication strategies in response to false allegations and rumors. When the sources of such allegations are sufficiently non-credible, simply re-stating them and clearly pointing out the non-credible source may provide an effective refutation strategy. Some boundary conditions however have to be pointed out: the conditions under which our experiments were run were such that participants were presented with prior positive brand information (to insure a positive prior attitude) and had the ability to process the information (i.e., they were not distracted or capacity restrained, something that may not necessarily be the case in a non-laboratory setting).

Some limitations of this research should also be acknowledged. Both experiments focused on one brand from a single product category. Future research should aim to replicate these findings with brands from other product categories. In addition future research should aim at investigating the behavioral relevance of our results. While previous research has found that more accessible attitudes have more behavioral relevance, future research should replicate our results showing an effect on actual behavior. More importantly future research should specifically look at the process of how structural inconsistencies are refuted or maintained by the different kinds of elaboration.

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## 6. Article 5: Brand Recovery – Communication in the Face of Crisis

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### 6.1. Abstract

This research note uses scientific research on persuasion to develop recommendations on what to say (and what not to say) when your brand is in crisis, that is, in those situations where a brand faces significant criticism in the marketplace and media. We develop communication strategies that help the brand recover from a crisis and restore consumer trust and liking for the brand. Six examples illustrate the range of responses to crisis situations and serve as cases to apply the proposed communication framework.

### 6.2. Introduction

*“We’re Mad as Hell...”*<sup>3</sup>

*“Travelers Suffer ‘JetBlues’ on Valentine’s Day”*<sup>4</sup>

*“Can one very bad week for JetBlue Airways wipe out years of industry-leading customer satisfaction ratings?”*<sup>5</sup>

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<sup>2</sup> Ronnie Sacco and Shamik Chakraborty provided research assistance for this article

<sup>3</sup> *Newsweek Web Exclusive* (2/16/07), We’re Mad as Hell.

<sup>4</sup> *Fox News* (2/15/07), More Flights Canceled as Midwest, Northeast Recover From Valentine’s Day Storm. <http://www.foxnews.com/story/0,2933,252122,00.html>

<sup>5</sup> *New York Times* (2/17/06), Long Delays Hurt Image of JetBlue.

What should JetBlue say when faced with these adverse comments from consumers and the media? Should it apologize? Should it blame the bad weather for flight delays and absolve itself of blame? And should it focus on different messages to different audiences? In this research note, we draw on scientific research on persuasion to develop recommendations on what to say when your brand is in crisis. We develop communication strategies that help the brand recover from a crisis and restore consumer trust and liking for the brand. We define crisis situations as those where a brand faces significant criticism in the marketplace and media.

### **6.2.1. Post-Crisis Communication**

When JetBlue was criticized for operational failure, it seemed that customers previously ecstatic with JetBlue's fares and service would lose faith in the brand. The brand failure and accompanying negative publicity would make customers like the brand less, feel negatively toward it and if these feelings were strong enough, would make them abandon the brand and switch to other (possibly low-fare) airlines. Potential customers who have never flown JetBlue may make a mental note to never book a flight on that airline. JetBlue management had a choice—to be resigned to this fate or to use the powerful tool of communication to recover from the crisis. The goal of the communication strategy should be to restore the brand's image to pre-crisis state. And here's an amazing thing: recovering from a crisis in the "right" way may sometimes even improve brand image!<sup>6</sup> By the same token, using the "wrong" communication strategy in a given situation (one that could be appropriate in a different situation but does not fit the current situation) could damage the brand beyond repair.

The goal of this note is to recommend the communication strategy that should be used in different crisis situations to restore brand image with customers (other stakeholders such as investors need to be considered as well; however, this note focuses on best practices in response to customers). We illustrate our recommendations using cases of successful as well as unsuccessful handling of the recovery from brand crises. At the end of this note, you should know what to say as well as what not to say in different crisis situations.

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<sup>6</sup> Aaker, J., Fournier, S. & Brasel, S. A. (2004). When Good Brands Do Bad. *Journal of Consumer Research*, 31 (1), 1-16.



### 6.2.2. Navigating the Crisis

When the crisis hits, or better yet when you anticipate a crisis, ask yourself how severe the crisis is from the viewpoint of the current and potential customer. Will customers classify the event precipitating the crisis as serious? What will be the media slant on the crisis, and how will this influence perceived crisis severity by the customer? Crisis severity lies in the eyes of the beholder, in this case the customer. From the brand management's standpoint, the incident that sets off a crisis could seem minor. Yet, it could be magnified by circumstances or by buzz. For example, in the case of Proctor & Gamble (P&G), distributors of a competitor's brand, Amway, started spreading a rumor that over the years developed into a "public relations nightmare": the story claimed that P&G donated large amounts of its revenues to the church of Satan.<sup>7</sup> As obscure as this rumor may sound, it has troubled P&G's management for decades and has led to several lawsuits. P&G says it has sustained major losses, including hundreds of millions of dollars in sales and other damages.<sup>8</sup>

Based on the crisis severity analysis, put yourself in your customers' shoes and try to predict what they will think about the crisis. Will the crisis-precipitating event be believed by customers (note that this is as important as whether the event is objectively true or a rumor)? Who will customers blame? Will they consider the transgression to be intentional, and will they believe that this type of thing is likely to happen again? Most important, what can you say to customers to reduce their perception of your culpability or reduce their perception of how indicative the crisis is of your brand's true colors?

### 6.2.3. Customers' Thoughts and Attribution

Events that precipitate crises are not the norm and are unexpected by consumers for the most part. If there is no pattern of crisis-prone behavior, then consumers are likely to start thinking about the event and why it happened.<sup>9</sup> When the JetBlue disaster hit, consumers reading or hearing about it likely asked themselves such questions as: Is this true? Who is responsible? Was it intentional? Will the brand do this again? What does this event say about the

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<sup>7</sup> *New York Times* (3/27/01), Proctor & Gamble Suit Over Satan Rumor Resurrected.

<sup>8</sup> Ibid.

<sup>9</sup> Johar, G. V. (1996). Intended and Unintended Effects of Corrective Advertising on Beliefs and Evaluations: An Exploratory Analysis. *Journal of Consumer Psychology*, 5 (3), 209–30.

brand/firm? Research in consumer psychology helps us understand what the answers to these questions are likely to be under different types of crisis situations.

#### **6.2.4. Is this True?**

Did JetBlue customers really get no warning that the flights would be canceled? Did they really sit in planes on the tarmac for 10 hours or more? Is it true that they did not get compensated? Customers' beliefs regarding the validity of the event provoking the crisis are likely to be based on whether someone they know experienced it or where they saw or heard about it (i.e., source credibility<sup>10</sup>), how often they are exposed to it<sup>11</sup> and how plausible it is that the brand would behave that way. Stories covered by CNN and the *New York Times* are likely to be believed more than those covered by blogs. At the same time, hearing about the event repeatedly, even if the repeated messages are from sources of dubious repute, will make consumers believe that the event was real. Consumers who are ambivalent about the brand are likely to believe even somewhat implausible rumors about the brand because, in an attempt to solidify their brand attitudes, they will not check the veracity of the source.<sup>12</sup> Finally, consumers are likely to think that negative events are true if there is a history of transgressions by the brand.

#### **6.2.5. Who is Responsible?**

Consumers are likely to blame the brand for the transgression if they do not feel favorably about the brand (e.g., the brand has an unfavorable reputation<sup>13</sup>) or are not committed to the brand,<sup>14</sup> do not trust the brand,<sup>15</sup> if the crisis is severe<sup>16</sup> or if there is no easy-to-expect alternative to blame. For example, with flight delays, the weather is a convenient scapegoat.

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<sup>10</sup> Tybout, A. M. (1978). Relative Effectiveness of Three Behavioral Influence Strategies as Supplements to Persuasion in a Marketing Context. *Journal of Marketing Research*, 15 (May), 229-42.

<sup>11</sup> Roggeveen, A. & Johar, G. V. (2002). Perceived Source Variability Versus Recognition: Testing Competing Explanations for the Truth Effect. *Journal of Consumer Psychology*, 12 (2), 81-91.

<sup>12</sup> Zembrain, M. & Johar, G. V. (2007). Attitudinal Ambivalence and Openness to Persuasion: A Framework for Interpersonal Influence. *Journal of Consumer Research*, 33 (4), 506-14.

<sup>13</sup> Laczniak, R. N., DeCarlo, T. E. & Ramaswami, S. N. (2001). Consumers' Response to Negative Word-of-Mouth Communication: An Attribution Theoretic Perspective. *Journal of Consumer Psychology*, (11) 1, 57-73.

<sup>14</sup> Johar, G. V. (1996). Intended and Unintended Effects of Corrective Advertising on Beliefs and Evaluations: An Exploratory Analysis. *Journal of Consumer Psychology*, 5 (3), 209-30.

<sup>15</sup> Gorn, G. J., Jang, Y. & Johar, G. V. (2007). Babyfaces, Trait Inferences, and Company Evaluations in a PR Crisis. *Columbia Business School Working Paper*.

<sup>16</sup> Robbennolt, J. K. (2000). Outcome Severity and Judgments of Responsibility: A Meta-analytic Review. *Journal of Applied Psychology*, 30 (12), 2575-609.

Brands that have a history of flight delays, however, are less likely to get away with this excuse and are likely to be held responsible for the delay. Hence, one way to reduce being blamed in case of a crisis is to build up a good reputation beforehand. For example, a company that has a reputation of being very environmentally conscious will be held less responsible in case of a crisis affecting the environment than one that is known to care little.<sup>17</sup> In really severe and valid crises, there may be no one else who can be blamed.<sup>18</sup> Consider, for example, the case of GlaxoSmithKline's diabetes drug Avandia. In a scientific study including more than 28 thousand patients, it was found that usage of Avandia increases the risk of heart attack by 43%.<sup>19</sup> In response, the Food and Drug Administration issued a public safety alert and advised an estimated two million patients worldwide to consult their doctors. GlaxoSmithKline issued news releases that it "strongly disagrees" with the finding of the study, however, its shares fell by nearly 8% in response.<sup>20</sup>

#### **6.2.6. Was it Intentional?**

Did JetBlue abandon its customers on purpose? Or was it unaware of what was happening? Could it have averted the 10-hour wait on the tarmac? Was it misinformed by the airport control tower? The answers to these questions will determine how hard the brand needs to work to regain consumer trust. Part of the answers comes from media reports on the event and the rest from consumers' inferences based on their feelings toward the brand, past history of the brand and plausibility of innocence on the part of the brand. Consider the extreme case of Ford's Pinto in the 1960s. In an attempt to build a car that could sell for under \$2,000, Ford's management knowingly sacrificed customers' safety for the sake of finance: after the production line was already set, engineers found that the Pinto had a potentially lethal flaw—in rear-end collisions the fuel system ruptured easily and could cause the car to catch fire. Management calculated the costs of fixing the flaw versus managing lawsuits from deaths and injuries and decided to go ahead with the launch of the faulty car. However, the costs of

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<sup>17</sup> Klein, J. & Dawar, N. (2004). Corporate Social Responsibility and Consumers' Attributions and Brand Evaluations in a Product-Harm Crisis. *International Journal of Research in Marketing*, 21, 203-217.

<sup>18</sup> Gorn, G. J., Jang, Y. & Johar, G. V. (2007). Babyfaces, Trait Inferences, and Company Evaluations in a PR Crisis. *Columbia Business School Working Paper*.

<sup>19</sup> Reuters (6/4/07), Interview—Avandia-type crisis could hit other drugs—Hassan.

<sup>20</sup> *New York Times* (5/22/07), Heart Attack Risk Seen in Drug for Diabetes.

lawsuits turned out to be much higher than the engineering solutions would have been, not to mention the damage in reputation and customers' trust.<sup>21</sup>

### **6.2.7. Will the Brand Do This Again?**

Consumers could infer that JetBlue makes razor-thin margins, so this type of incident is inevitable when circumstances are not ideal (e.g., there is bad weather). Or they could forgive the brand and consider this event a one-time transgression. Consumers' predispositions toward the brand are likely to determine which of these inferences is made. Those who have had prior positive experiences and like the brand are more likely to forgive it, as long as there is a way to reason why it won't happen again. If consumers believe there is a recurring pattern of transgression, they are likely to leave the brand altogether. This is likely even if the crisis is not very severe, as in the case of New-York based ice cream chain CremaLita. The continuous misstatement of its product's fat content led to severe short-term drops in sales and the closing of more than half of its Manhattan stores during the year of the crisis. Ironically, severe crises may be perceived as relatively rare, and consumers may be less likely to believe that a negative event of this magnitude would happen again.

### **6.2.8. What Does this Event Say about the Brand?**

Is JetBlue any different from other airlines? After deregulation, aren't they all equally bad? If other airlines are reported to have had problems similar to JetBlue's (even if on a slightly less severe scale), consumers may not make sweeping generalizations about the brand. However, if it looks like other airlines weathered the storm, consumers may draw inferences about JetBlue that even go beyond its operational abilities. For example, they may also disparage JetBlue's service and schedules.<sup>22</sup> This type of "halo" effect—where an isolated negative event with direct implications for one feature of the brand (operational efficiencies in this case) also spills over to affect beliefs about other features—is especially likely with less loyal and less-committed customers.<sup>23</sup>

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<sup>21</sup> Coombs, T. (2006). *Code Red in the Boardroom. Crisis Management as Organizational DNA*. Praeger: Westport.

<sup>22</sup> Johar, G. V., Sengupta, J. & Aaker, J. (2005). Two Roads to Updating Brand Personality Inferences: Trait Versus Evaluative Inferencing. *Journal of Marketing Research*, 42 (November), 458-69.

<sup>23</sup> Ahluwalia, R. (2000). Examination of Psychological Processes Underlying Resistance to Persuasion. *Journal of Consumer Research*, 27 (2), 217-32; Ahluwalia, R., Burnkrant, R. E. & Unnava, H. R. (2000). Consumer

### 6.3. Communication Arsenal when the Transgression is Real

Your communication strategy should provide consumers with an answer to the questions posed above. To be sure, the answer you provide depends on whether the information provoking the crisis (the transgression) is objectively true or not. We provide normative communication strategies that answer consumers' questions in two situations—when the transgression is objectively real versus not (e.g., a rumor). We start with the first situation.

#### 6.3.1. The 'Come Clean' Response

If the brand is clearly at fault, and the crisis is severe, come clean at once. Apologize and accept responsibility, do not try to minimize the situation but communicate all the bad news at once. If it was unintentional (e.g., the Exxon Valdez oil spill), explain this by communicating regulations and safety procedures that should have prevented the oil spill. Help consumers make sense of the event. Discuss how you will prevent these types of events from occurring again. If this information is made compelling, customers may have even stronger attitudes toward the brand than they did before the crisis hit.<sup>24</sup>

In severe cases where the brand is at fault, corrective action may be necessary in addition to an admission of guilt and an apology. Take JetBlue, for example. The company apologized in mass media publications as well as directly to its customers. To show that it means what it says, since the crisis JetBlue has canceled flights rather than take chances with the weather. Consumers may be influenced by what you say. But even more, they are influenced by what you do and whether you live up to your words. Corrective action can forestall the inference that this type of event will be associated with the brand in the future and may even reduce perceptions of responsibility and intentionality.

Another example of a severe crisis that called for an apology and corrective action is that of the Tylenol tampering incident. Johnson and Johnson (J&J) simultaneously launched a

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Response to Negative Publicity: The Moderating Role of Commitment. *Journal of Marketing Research*, 37 (May), 203–14; Johar, G. V., Jaideep, S. & Aaker, J. (2005). Two Roads to Updating Brand Personality Inferences: Trait Versus Evaluative Inferencing. *Journal of Marketing Research*, 42 (November), 458–69.

<sup>24</sup> Sengupta, J. & Johar, G. V. (2002). Effects of Inconsistent Attribute Information on the Predictive Value of Product Attributes: Toward a Resolution of Opposing Perspectives. *Journal of Consumer Research*, 29 (June), 39–56.

communication campaign issuing warnings to customers and withdrew the approximately 30 million bottles on store shelves. This quick information campaign coupled with corrective action ensured that J&J did not suffer much fallout from the disaster. The media praised the firm's handling of the crisis, and Tylenol recovered its market share of 35% in less than a year (from an 8% low at the time of the crisis). The Tylenol strategy worked with current customers by illustrating the firm's responsiveness and providing them with reasons to stay with the company, and it worked with potential customers by assuring them of absence of risk.<sup>25</sup> The apology and admission of guilt strategy should be accompanied by a "Polish the halo" strategy to overcome the potential backlash to the brand.<sup>26</sup>

### 6.3.2. The 'Polish the Halo' Response

When an apology becomes necessary, the brand may also need to bolster its image so that less-committed customers do not become even more negative toward the brand<sup>27</sup> or transfer their negative beliefs about certain features to other features of the brand (a so-called "spillover" effect).<sup>28</sup> Brands need to be vigilant and guard against spillover from features that are central to the crisis to other features of the brand. One way to prevent spillover is to buffer the brand by polishing the brand image. Less-committed customers interpret information through a broader lens and use their liking for the brand to determine what the information means in terms of brand features.<sup>29</sup> Brand advertising and PR activities could bolster brand image immediately in the aftermath of a crisis. An image-building campaign emphasizing the positive aspects of the brand should accompany or follow the apology without seeming to excuse the transgression in any way.

Consider the example of Pepsi India, who faced accusations in 2003 concerning the low quality and possibly toxic nature of the water used for its products. A denial and attack the accuser strategy proved to be ineffective and similar accusations were made by the media

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<sup>25</sup> Dawar, N. & Pillutla, M. (2000). The Impact of Product-harm Crises on Brand Equity: The Moderating Role of Consumer Expectations. *Journal of Marketing Research*, 37, 215–26.

<sup>26</sup> Johar, G. V. (1995). Consumer Involvement and Deception from Implied Advertising Claims. *Journal of Marketing Research*, Volume 32, no. 3: 267–79.

<sup>27</sup> Johar, G. V. (1996). Intended and Unintended Effects of Corrective Advertising on Beliefs and Evaluations: An Exploratory Analysis. *Journal of Consumer Psychology*, 5 (3), 209–30.

<sup>28</sup> Einwiller, S. & Johar, G. V. (2007). Preventing Damage from Accusations—The Case of WalMart. *European Marketing Conference, Reykjavik*.

<sup>29</sup> Johar, G. V., Sengupta, J. & Aaker, J. (2005). Two Roads to Updating Brand Personality Inferences: Trait Versus Evaluative Inferencing. *Journal of Marketing Research*, 42 (November), 458–69.

three years later. With great media attention and personal efforts by the company's CEO, Pepsi used a "Polish the halo" strategy in 2006, publicly announcing its efforts to help India monitor and improve its quality of water and food supply. This strategy eventually led the media to lavishly praise the company and its CEO.<sup>30</sup> The "Polish the halo" strategy has the advantage of working even without consumers' extensively processing the message. This makes it a viable choice in less severe cases in which customers invest less attention to the specifics of the crisis. This strategy is of special importance for uncommitted customers who are far less likely than committed customers to refute the message themselves.

### **6.3.3. The 'Not Just Me' Response**

This response can help consumers understand the bigger picture. For example, it may be that the transgression is not something unique to your brand, but could happen to any other brand as well. If consumers understand this, then they are less likely to generalize from the crisis instance to other aspects of the brand, including its future trajectory. Give consumers information to consider when they ask themselves whether the crisis-provoking event was unique to your brand. For example, could market conditions have provoked this crisis for any competing brand as well? Provide cues that help consumers construct a narrative (a story with a sequence of events) that absolves your brand of the sole responsibility for the event. This message can help consumers put the transgression in perspective and lead the way to brand forgiveness. The "Not just me" response should be especially effective with committed customers. These customers are prone to counterargue themselves and just need to be provided with ammunition in the form of information cues.

### **6.3.4. The 'Yes, But...' Response**

This response involves explaining the reasons for the crisis and/or downplaying the damage done. This justification response can only be used when the accusation is valid and the crisis is not severe. Justification is especially needed for customers who are less committed to the brand (see Exhibit 1 for a definition of commitment), because they will not generate these excuses for themselves. They are likely to believe that the transgression was intentional and the brand is to blame. Further, they may believe that this is the "true face" of the brand and

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<sup>30</sup> *BusinessWeek* (6/11/07), Pepsi: Repairing a Poisoned Reputation in India.

events such as these are likely to occur again. Providing reasons why the transgression occurred could make these customers' attributions of blame less severe and help keep them in the brand franchise. Because uncommitted customers may not process this information in detail, combine this strategy with a "Polish the halo" strategy.

## **6.4. Communication Arsenal when the Transgression is Not Real**

### **6.4.1. The 'No, Not I' Response**

If the accusation against the brand is not true, then denial could be a useful strategy if target consumers are committed to the brand and do not perceive the crisis to be severe. Denial should only be used if the accusations have gained traction, are clearly linked to your brand and are widely reported in the media. Otherwise, denial could be seen as an admission of guilt.<sup>31</sup> In general denial has to be plausible, and the claim that the reported transgression did not in reality occur or that the brand has nothing to do with it has to be viewed as plausible. Trustworthiness of the brand's denial message is key. Some ways to make the brand's denial ring true include providing a narrative (a story line) that absolves the brand completely and using tactics that increase message credibility. However, the effectiveness of such a strategy will be most effective for committed customers. Customers who are less committed to the brand are unlikely to devote much attention to such a narrative and hence approaches like the "Polish the halo" may be more effective with them. In some cases, companies have to go to great lengths to develop the "No, not I" response. In 1996, rumors spread that fashion designer Tommy Hilfiger had appeared on the *Oprah Winfrey Show* stating he wished people of color would not wear his clothes. As Internet blogs called for boycotts, the company was forced to react. The firm addressed these rumors on discussion boards and created a section on its own website denying the claim. Hilfiger hired outside experts to try to trace the source of this erroneous rumor. Oprah Winfrey herself denied the allegations on her show in 1999 and posted a statement on her website that Hilfiger had never appeared on her show. However, the rumor proved so persistent that in May 2007 Hilfiger did appear on Oprah Winfrey's show in another attempt to make clear that the allegations were false.

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<sup>31</sup> Roehm, M. L. & Tybout, A. M. (2006). When Will a Brand Scandal Spill Over, and How Should Competitors Respond? *Journal of Marketing Research*, 43 (3), 366-73.



Consumers determine trustworthiness of the denial of wrongdoing based on cues such as company, brand and spokesperson history. Consumers also make inferences about trustworthiness based on surface cues such as the appearance of the spokesperson. For example, a large body of research suggests that characteristics associated with a babyface (round eyes, small chin) increase perceptions of honesty and message credibility suggesting that brands can send out a babyface in times of crisis.<sup>32</sup> Caution is important though, because even a babyface will not be believed if the crisis is severe and the denial is considered implausible.

#### **6.4.2. The ‘Rebuttal’ Response**

When the crisis is severe, a “No, not I” or a “Yes, but...” strategy could backfire, even if the crisis was provoked by a rumor and is unjustified. When consumers believe that they personally are at risk (e.g., from previously unannounced side effects of prescription drugs), then brands need to come up with a point-by-point rebuttal of the accusation. Ignoring the attack, even if it is not valid, could sink the brand. Witness the Swift Boat campaign against John Kerry in the 2004 presidential election. A group called the “Swift Boat Veterans for Truth” that was allegedly financed by people close to competitor George W. Bush accused Kerry of lying about his action in the Vietnam War. The Kerry campaign did not immediately respond, and many believe that this lack of response was the key event that lost the election for Kerry.

The rebuttal response even works for crises that are not very severe, but are in danger of being perceived as severe by less-committed customers as the crisis unfolds. Committed consumers spontaneously question the validity of an attack and can generate their own counterarguments. They are less likely to need help to counterargue when the crisis is not severe.<sup>33</sup> If the incident that caused the crisis is very severe, however, then those highly committed to the brand or company have been shown to react just as negatively as those not committed. The bottom line is that severe crises require fast response with complete

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<sup>32</sup> Gorn, G. J., Jang, Y. & Johar, G. V. (2007). Babyfaces, Trait Inferences, and Company Evaluations in a PR Crisis. *Columbia Business School Working Paper*.

<sup>33</sup> Ahluwalia, R. (2000). Examination of Psychological Processes Underlying Resistance to Persuasion. *Journal of Consumer Research*, 27 (2), September, 217-32; Ahluwalia, R., Burnkrant, R. E. & Unnava, H. R. (2000). Consumer Response to Negative Publicity: The Moderating Role of Commitment. *Journal of Marketing Research*, 37 (May), 203–14.

information to help customers rebut the accusation if it is invalid.<sup>34</sup> One tactic that could work to help consumers integrate the counterarguments is to frame them in a way that is similar to the framing of the attack.<sup>35</sup> In this case, correction of false beliefs brought about by the false accusation may be automatic and not require much effort. And effort is something that consumers are unlikely to spend on a brand especially if they are not very committed to it. Consumers who are not motivated and able to hold accurate brand beliefs may not integrate the brand's response to crisis.<sup>36</sup> Framing the message to match the attack is a good tactic for these consumers.

#### **6.4.3. The 'Inoculation' Response<sup>37</sup>**

This is the only strategy that requires anticipating a crisis and preparing consumers for it by giving them counterarguments. This strategy is particularly effective if the crisis is severe and likely to receive a lot of media coverage. If you believe that even committed consumers will begin to question your brand when the news hits, then it is time to adopt an aggressive full-frontal strategy. Anticipate the criticism and prepare consumers with counterarguments prior to the attack. The inoculation message acts like a vaccine and prevents the "crisis virus" from attacking the brand. Consumers are fortified by the message and ready to counterargue when the crisis hits. Inoculation can be used with caution if the crisis-provoking event is true—in this case, the role of the message is to make consumers believe that the crisis is not as severe as it will be made out to be in the media. Counterarguments, whether used as rebuttal or as inoculation, can point out that the attack is not valid, or not important, or not indicative of the true nature of the brand.

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<sup>34</sup> Einwiller, S., Fedorikhin, A., Johnson, A., & Kamins, M. (2006). Enough Is Enough! When Identification No Longer Prevents Negative Corporate Associations. *Journal of the Academy of Marketing Science*, 34 (2), 185-94.

<sup>35</sup> Johar, G. V. & Roggeveen, A. (forthcoming). Changing False Beliefs from Repeated Advertising: The Role of Claim-Refutation Alignment. *Journal of Consumer Psychology*.

<sup>36</sup> Johar, G. V. & Simmons, C. The Use of Concurrent Disclosures to Correct Invalid Inferences. *Journal of Consumer Research*, 26 (4), 307-22.

<sup>37</sup> Einwiller, S. & Johar, G.V. (2007). Preventing Damage From Accusations – The Case of WalMart. *European Marketing Conference, Reykjavik*.

#### **6.4.4. The ‘Attack the Accuser’ Response<sup>38</sup>**

This strategy should be used in small doses because it could backfire if it is viewed as being unfair or defensive. However, it may be necessary to attack the accuser especially if the accusation is severe. In less severe cases, attacking the accuser is unnecessary with highly committed customers, but should be used with less-committed customers. The idea here is to decrease the credibility of the claim by discrediting the accuser. If the unjustified attack originated from a competitor and then took off, the brand could bring this to light and show that vested interests are the origin of the attack.

### **6.5. Summary**

As you can see, the goal of communication during a crisis is to diffuse the crisis by helping consumers understand why it happened and why the brand should not be viewed more negatively as a result of the crisis. Manage consumers’ attributions of blame as well as their thoughts about the future of the brand by providing them with a clear and cohesive narrative that answers their questions about the crisis in a compelling way. Figure 1 provides an overview of the communication tools that are most useful in different circumstances. By choosing wisely from the communication arsenal, you can avert backlash from consumers and perhaps even strengthen your brand when a crisis hits.

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<sup>38</sup> Einwiller, S. & Johar, G.V. (2007). Preventing Damage From Accusations – The Case of WalMart. *European Marketing Conference, Reykjavik*.

## 6.6. Exhibit 1: The Role of Customer Commitment

High customer commitment is one of the best insurances against the possibly devastating effects a crisis can have for an organization. Committed customers feel emotionally attached to a certain brand.<sup>39</sup> They wish to maintain their relationship with the brand or the company and believe that that the relationship is worth working for.<sup>40</sup> Usually commitment arises when customers are highly involved with a certain product of the company.<sup>41</sup> Building brand commitment requires heavy investment of marketers' resources<sup>42</sup> but in the case of a marketing crisis it certainly pays off: because of their attachment to the brand, committed customers start questioning by themselves, whether reports about a crisis are true or not.<sup>43</sup> Hence, with these customers it may be enough to simply provide them with information supporting that the accusation is not true. And even when an accusation is true, committed customers tend to perceive the event as less important than uncommitted customers.<sup>44</sup> Uncommitted customers instead will devote less attention to carefully examine whether the information is true. Further they are more likely to think that the problem may also affect other parts of the brand or the company.<sup>45</sup> So for uncommitted customers it is necessary that companies actually provide counterarguments, as they are unlikely to engage in counter-arguing themselves.

<sup>39</sup> Fournier, S. (1998). Consumers and Their Brands: Developing Relationship Theory in Consumer Research. *Journal of Consumer Research*, 24 (March), 343–73; Lastovicka, J.L. & Gardner, D.M. (1978). Components of Involvement. In: *Attitude Research Plays for High Stakes*, eds. John L. Maloney and Bernard Silverman, Chicago: American Marketing Association, 53–73.

<sup>40</sup> Morgan, R. & Hunt, D.S. (1994). The Commitment-Trust Theory of Relationship Marketing. *Journal of Marketing*, 58(3), 20–38.

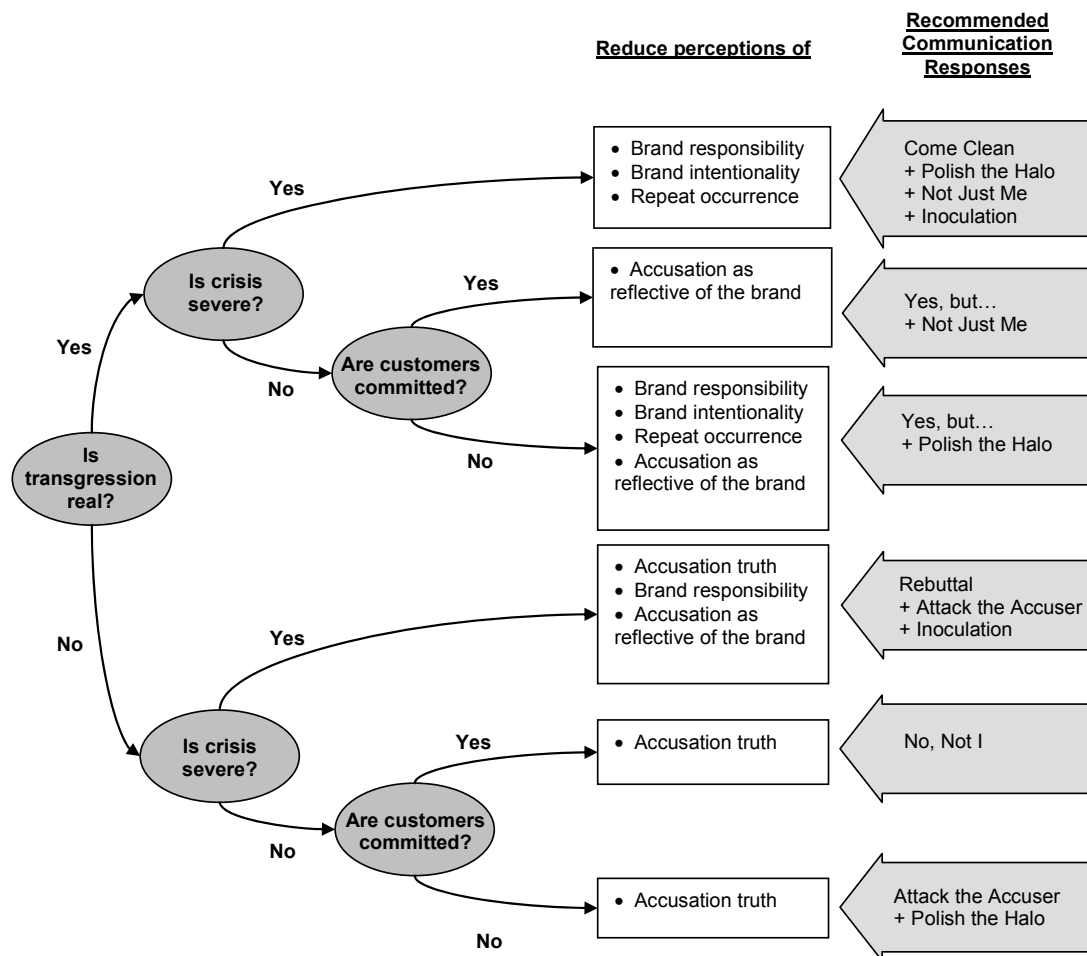
<sup>41</sup> Beatty, S.E., Kahle, L.R. & Homer, P. (1988). The Involvement-Commitment Model: Theory and Implications, *Journal of Business Research*, 16 (2), 149–67; Crosby, L. A. & Taylor, J.R. (1983). Psychological Commitment and Its Effects on Post-decision Evaluation and Preference Stability among Voters. *Journal of Consumer Research*, 9 (March), 413–31.

<sup>42</sup> Ahluwalia, R. Unnava, H.R. & Burnkrant, R. (2001). The Moderating Role of Commitment on the Spillover Effect of Marketing Communications. *Journal of Marketing Research*, 38(4), 458–70.

<sup>43</sup> Ahluwalia, R. (2000). Examination of Psychological Processes Underlying Resistance to Persuasion. *Journal of Consumer Research*, 27 (2), September, 217–32.

<sup>44</sup> Ahluwalia, R. , Burnkrant, R. E. & Unnava, H. R. (2000). Consumer Response to Negative Publicity: The Moderating Role of Commitment. *Journal of Marketing Research*, 37 (May), 203–14.

<sup>45</sup> Ahluwalia, R. Unnava, H.R. & Burnkrant, R. (2001). The Moderating Role of Commitment on the Spillover Effect of Marketing Communications. *Journal of Marketing Research*, 38(4), 458–70.



**Figure 6-1: Comprehensive Crisis Communication Framework**

## 6.7. Brand Crises Examples

### 6.7.1. Example 1: Cremalita

#### Company

CremaLita, a family-owned low calorie ice cream chain, opened its first store in New York in August 2001. Owner Jeffrey Britz stated in National Restaurant News that the chain targets audiences in “busy metropolitan areas” and planned to “ramp up expansion through franchising.”<sup>46</sup> Within two years of its launch, the company included 10 Manhattan

<sup>46</sup> National Restaurant News (8/4/03), CremaLita Grabs Scoop of Burgeoning Low-Fat Dessert Niche.

franchises and had made numerous deals with contract feeders and corporate cafeterias.<sup>47</sup> When CremaLita was introduced to the Los Angeles market in late 2003, *Variety* announced, “CremaLita ice cream has reached near-cult status in New York...and now Angelenos can get their paws on the coveted cone, too.”<sup>48</sup>

### **Crisis: False Statement of Calories**

On October 2, 2002, *The New York Times* featured CremaLita in its “Dining In, Dining Out” column with headline reading: “Fewer Calories than Ice Cream, But More than You Think.” After conducting lab tests that found substantially higher fat and calorie values than CremaLita advertised, the *Times* accused CremaLita of deceptive advertising. In response to the *Times* expose, the New York City Department of Consumer Affairs (DCA) commissioned the U.S. Food and Drug Administration (FDA) to test samples of the frozen dessert. On December 30, 2003 DCA announced the findings of these tests in a press release widely quoted by New York area media: “New Yorkers think they’re getting a sweet deal, but in reality they are being fed false claims and three times the calories...What you think is 60 calories is really closer to 300 calories.”<sup>49</sup> The DCA hit CremaLita with 61 counts of deceptive and misleading trade practices and the company faced \$30,500 in fines.<sup>50</sup> On May 4, 2004, ABC News included CremaLita in their story headlined, “Are Some Low-Cal Food Claims Big Fat Lies?”<sup>51</sup> On May 26, 2004, the DCA and CremaLita jointly announced they had come to an agreement stating, “certain charges in the initial notice of violation were based, in good faith, on erroneous FDA analyses of the product, and that CremaLita admits no wrong doing.”<sup>52</sup> The new findings suggested that “CremaLita is not low-calorie (by Federal definition), but it’s not as fattening as the city Department of Consumer Affairs charged.”<sup>53</sup>

### **Communication Strategy:**

On the day the DCA announced its charges, chain owner Allison Britz maintained her stores sold a “good-for-you product.” “I just think their tests are incorrect,” she told the *New York Sun*. “We don’t think we’re wrong. I’ve tested this stuff...There is no reason for the labs to

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<sup>47</sup> Ibid.

<sup>48</sup> *Variety* (11/3/03).

<sup>49</sup> *New York Sun* (12/31/03), ‘Guilt Free’ Ice Cream Guilty?.

<sup>50</sup> *New York Sun* (12/31/03), ‘Guilt Free’ Ice Cream Guilty?

<sup>51</sup> <http://www.abcnews.com> (5/4/04), Are Some Lo-Cal Food Claims Big Fat Lies?

<sup>52</sup> <http://www.nyc.gov> (5/26/04) New Yorkers Get the Real Skinny.

<sup>53</sup> *New York Daily News* (5/27/04), CremaLita Lo-Cal Tiff Lands in the Middle.

give us bad tests.”<sup>54</sup> Britz did admit to larger than advertised serving sizes, but she attributed this to repeated customer demands. When asked to respond to accusations about deceptive advertising by ABC News in early May 2004, Britz replied in an e-mail statement, “There were serious errors in the FDA methodology leading to a substantial overstatement of CremaLita’s calorie count, fat content and other nutritional information.”<sup>55</sup> When CremaLita reached a compromise with the city on May 26, Ms. Britz stated in her joint press release with the DCA: “We are pleased to reach this agreement with the Department of Consumer Affairs, and believe that the end result will be a win for all consumers...We also hope that our new voluntary level of disclosure and independent testing will become the industry standard...As an industry leader, our goal is to give our customers the highest quality fat-and cholesterol-free ice cream, accompanied by the kind of information needed to make an informed and satisfying choice.”<sup>56</sup>

**Result:**

According to Cremalita sales at stores dropped by 30% following DCA accusations, contributing to the closings of 6 of the 10 Manhattan stores in 2004.<sup>57</sup> Traces of the Times/DCA allegations continue to haunt the brand. When CremaLita opened its first café in Phoenix in early 2007, the first blogger to add a review on the City Guide wrote: “NY Times did an expose on CremaLita revealing that the calorie content of their ‘small’ is 3x what they advertised.”<sup>58</sup> The DCA’s initial indictment of Cremalita kept many customers away from the stores, according to Cremalita.<sup>59</sup> Some customers - as revealed in personal blogs and local media interviews - felt “betrayed” to hear how fattening a supposedly low-cal snack might be.<sup>60</sup> One consumer, Stephen Brandt, did attempt to bring a class action suit against the company in 2004 claiming that “as a result of CremaLita’s alleged false advertising...he and countless ‘other members of the class’ were put at risk of severe health problems,”<sup>61</sup> but a Manhattan judge dismissed the suit in May 2006.

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<sup>54</sup> New York Sun (12/31/03), “Guilt Free” Ice Cream Guilty?

<sup>55</sup> <http://www.abcnews.com> (5/4/04), Are Some Low-Cal Food Claims Big Fat Lies?

<sup>56</sup> <http://www.nyc.gov> (5/26/04), New Yorkers Get the Real Skinny.

<sup>57</sup> New York Times (4/17/05), As Calories Add Up, the Costs Can, Too.

<sup>58</sup> <http://search.cityguide.aol.com/phoenix> (1/19/07), CremaLita: Ratings and User Reviews.

<sup>59</sup> New York Times (4/17/05), As Calories Add Up, the Cost Can, Too.

<sup>60</sup> New York Sun (12/31/03), ‘Guilt Free’ Ice Cream Guilty?

<sup>61</sup> <http://www.overlawyered.com> (5/30/06).

### 6.7.2. Example 2: Dell

#### Company

In 2005 Dell was the world's largest computer manufacturer (currently the number three in the market) with an 18.2% market share<sup>62</sup>, generating \$55,908 million in global revenues. Dell was founded in 1984 and is based in Texas.<sup>63</sup> Dell pioneered the direct-sales model for computers by eliminating the middleman.<sup>64</sup> According to the American Customer Satisfaction index, Dell scored 79 in August 2004, comfortably above the industry average.<sup>65</sup>

#### Crisis: Customer Support Problems – “Dell Hell”

On June 21, 2005, Jeff Jarvis, creator of *BuzzMachine*, a popular weblog tracking new developments in media, headlined his entry “Dell lies. Dell sucks”,<sup>66</sup> coining the phrase “Dell Hell.” Throughout the summer of 2005, Jarvis chronicled his efforts to get Dell to fix his broken computer, a quest he claims included “an infuriating string of unanswered or improperly handled e-mails and phone calls.”<sup>67</sup> The complain was that Dell's customer service was poor, long wait times on the phone, unresolved technical problems and hard-to-understand customer service representatives working in India.<sup>68</sup> Soon mainstream media like Business Week, Fast Company, ZDNet, PC World and the Houston Chronicle gave the claim a wider audience.<sup>69</sup> In October 2005, Business Week headlined an article, “Hanging Up On Dell?” referencing Jarvis' blog and stating that “plenty of people are going public with complaints” about Dell, giving birth to websites like *www.ihatedell.net*. An industry observer noted “What began as a personal account by Jarvis of his problems with Dell on his *BuzzMachine* blog has turned into a public perception nightmare.”<sup>70</sup>

#### Communication Strategy:

Initially Dell ignored the blogger uprising and the subsequent media coverage. In August 2005, Dell CEO Rollins refuted news of a recent slip in Dell's American Customer

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<sup>62</sup> <http://www.netadvantage.standardpoor.com>

<sup>63</sup> Hoovers, Dell Inc., Information and Related Industry Information.

<sup>64</sup> Ibid.

<sup>65</sup> Austin American Statesmen (8/16/05), Study Finds Fewer Dell Customers Satisfied, Company Disputes Finding of Increased Complaints.

<sup>66</sup> <http://www.buzzmachine.com> (6/21/05), Dell Lies. Dell Sucks.

<sup>67</sup> <http://directmag.com> (10/1/05), Dell Takes One Hell of a Blogging.

<sup>68</sup> Investor's Business Daily (4/10/07), HP Advances, Dell Stumbles in Buyer Poll.

<sup>69</sup> B to B/Crain Communications (9/12/05), How One Man's Weblog Became Dell's Nightmare.

<sup>70</sup> B to B/ Crain Communications (9/12/05), How One Man's Weblog Became Dell's Nightmare.



Satisfaction Index rating stating that “findings from another organization and its own internal check showed that service is still strong and improving.”<sup>71</sup> In October 2005, John Hamlin, senior VP of Dell’s U.S. consumer business, told Business Week that Dell was “hiring a few thousand additional reps this year and striving to reduce call transfers.” For over a year, Dell endured eroding market share and increasing slippage in customer satisfaction ratings, yet took no direct action in response to the Dell Hell attacks. Then, in November 2006, CEO Rollins announced the company would spend \$150 million to fix customer service problems that left U.S. buyers in what the company acknowledged was “Dell Hell.” On January 9, 2007, a Houston Chronicle “Tech Blog” reported that newly Dell re-appointed CEO Michael Dell said he was “very aware of blog guru Jeff Jarvis’ crusade against his computer company over poor customer service...and now concedes that the way it was handled at the time was a mistake.”<sup>72</sup> In February 2007, CEO Dell launched *www.dellideastorm.com*, a website “to gauge which ideas are most important and most relevant to the public” with a page which demonstrates how Dell is acting upon suggestions.<sup>73</sup>

### **Result:**

The customer responses to Jarvis’ blog were unprecedented; he appeared to unite millions of consumers furious about Dell’s poor service.<sup>74</sup> Mainstream media backed up the bloggers’ complaints with their own interviews of disgruntled Dell customers. Business Week, in a story prompted by the Dell Hell fury, reported on the saga of several Dell consumers—including one that spent nearly three hours on the phone talking to half a dozen reps to solve a simple keyboard problem. “I certainly won’t buy another product from Dell,” she told Business Week. “I will make sure that any other prospective Dell customer I meet knows what kind of treatment they’ll get.”<sup>75</sup> In August 2005, a study issued by the University of Michigan found Dell’s American Customer Satisfaction Index dropped 6% to 74 points from 79 in August 2004.<sup>76</sup> In November 2006 Dell’s stock had fallen nearly 4% over one year ago, while Hewlett Packer quadrupled its profits in the same period.<sup>77</sup> By July 2007, Dell

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<sup>71</sup> Austin American-Statesman (8/16/05), Study finds fewer Dell customers satisfied, Company disputes finding of increased complaints.

<sup>72</sup> <http://blogs.chron.com> (1/9/07), Dell on Dell Hell: We were mostly to blame.

<sup>73</sup> Wikipedia, “Dell IdeaStorm”.

<sup>74</sup> The Guardian, (8/29/05) My Dell Hell.

<sup>75</sup> Business Week (10/10/05), Hanging up on Dell?

<sup>76</sup> Austin American-Statesman (8/16/05), Study finds fewer Dell customers satisfied.

<sup>77</sup> The Guardian (11/17/06), Financial: Dell results delay deepen woes as HP quadruples profits.

slipped from its number one spot in worldwide PC sales to commanding the number three spot with a 17.1% market share.<sup>78</sup>

While Dell's perceived customer service problem was gaining momentum before Jarvis blogged his views, industry experts agree that *BuzzMachine* propelled the issue to crisis status. In August 2006, Ad Age observed that Dell's "brand image has been damaged by rampant online customer –service complaints—driven by *BuzzMachine* blogger Jeff Jarvis' rants."<sup>79</sup> By February 2007, when Hewlett-Packard had overtaken Dell as the market leader, the Daily Telegraph observed, "the computer makers reputation could scarcely be lower...the internet is littered with websites detailing customers' frustrations of wading through 'Dell Hell.'"<sup>80</sup>

### 6.7.3. Example 3: Jetblue Airways

#### Company

JetBlue is a low-cost low-fare passenger airline, based in New York, that began operation in 2000. It offers approximately 500 daily flights from 50 destinations, and has a market capitalization of around \$2.4billion<sup>81</sup>. In a February 2007 survey by the Consumer Reports National Research Center, just days before the Valentine's Day crisis it was ranked as No. 1 in customer satisfaction with a score of 87 out of a possible 100.<sup>82</sup>

#### Crisis: Valentine's Day delay with passengers stuck in planes, Feb. 14th, 2007

On Valentine's Day in 2007 a series of storms in the eastern U.S. halted air traffic. Although many other carriers had already cancelled dozen of flights in preparation of the storm, due to its policy to ensure a flight is completed, JetBlue's management opted to wait it out and boarded the planes, which were subsequently waiting on the runway for the weather conditions to improve. But instead of improving, freezing rain and sleet continued and planes and equipment were slowly freezing to the tarmac. Customers were stuck in the airplanes and

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<sup>78</sup> <http://www.netadvantage.standardpoor.com>, Dell Inc.

<sup>79</sup> Ad Age (8/21/06), Dell Still No. 1, But Blogger, Battery Recall Dent Image.

<sup>80</sup> Daily Telegraph (2/2/07), Michael Dell is Planning to Change his Firm's Course Completely to Recover Lost Ground.

<sup>81</sup> Bartholomew, D. & Duwall, M. (2007). What Really Happened at JetBlue. *Baseline Magazine*.  
<http://www.baselinemag.com/article2/0,1540,2111617,00.asp>

<sup>82</sup> USA Today (2007). What Meltdown? JetBlue Named Top U.S. Airline.  
[http://www.usatoday.com/travel/flights/2007-06-05-jetblue-survey\\_N.htm](http://www.usatoday.com/travel/flights/2007-06-05-jetblue-survey_N.htm)

not allowed to leave for up to eleven hours<sup>83</sup> with little to eat, problematic air and bathroom conditions<sup>84</sup>. After it became clear the planes would not be able to take off, due to the heavy snow and ice storms, passengers had to be taken back to the terminal by bus. Customers were claiming their experience to be “the worst” and “horrific”<sup>85</sup>.

In addition JetBlue was accused of having heavily underinvested in its information system. JetBlue was unable to handle the resulting calls from passengers that were trying to reserve other flights due to an outdated information system not prepared for dealing with such a situation. As a result many passengers were unable to get through to the reservation system or had to wait more than an hour on the line. Also, JetBlue did not have a computerized system in place for recording and tracking lost bags, which meant that the returning bags from the planes piled up and passengers had to wait for up to three days to reclaim their baggage<sup>86</sup>.

### **Communication Strategy:**

In a first step JetBlue apologized by personally calling affected customers and providing information by explaining passengers individually the reasons for the failures.<sup>87</sup> The company’s CEO further publicly apologized by saying he was “sorry and embarrassed”<sup>88</sup> acknowledging that the situation was totally “unacceptable”<sup>89</sup>. In an effort to come clean JetBlue offered immediate refunds and travel vouchers for customers stuck on planes for longer than three hours. In addition, the company’s CEO announced a new “customers’ bill of rights” and created a “service guarantee”, that includes certain guaranteed vouchers relative to the length of the delay. Also, JetBlue’s CEO vouched for new investments in weather related operations, thereby bolstering the company’s reputation of customer-friendliness<sup>90</sup>.

### **Result:**

As a response to the JetBlue crisis, Consumer Reports conducted a small follow-up survey in April and found that JetBlue's Valentine's Day problems had little effect on the airline's

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<sup>83</sup> Factiva (02/15/07). DJ Update: Airlines Scramble to Recover After US Winter Storm

<sup>84</sup> Factiva (02/16/07). NYC Fliers Stranded on Planes for Hours.

<sup>85</sup> Factiva (02/16/07). NYC Fliers Stranded on Planes for Hours.

<sup>86</sup> Bartholomew, D. & Duwall, M. (2007). What Really Happened at JetBlue. *Baseline Magazine*.  
<http://www.baselinemag.com/article2/0,1540,2111617,00.asp>

<sup>87</sup> Business Week (03/62/2007), Readers Report. JetBlue Customers stand by their Carrier.

<sup>88</sup> Business Week (03/12/2007). Is JetBlue the Next People Express?

<sup>89</sup> Factiva (02/16/07). NYC Fiers Stranded on Planes for Hours.

<sup>90</sup> Business Week (03/05/2007). An Extraordinary Stumble at JetBlue.

overall levels of satisfaction, with the carrier remaining among the top-rated airlines in the survey.<sup>91</sup> In a Business Week Readers Report passengers involved in the Valentine's Day crisis applauded the communication strategy employed by JetBlue in response to the crisis. One passenger: "Many companies, when faced with such a consumer crisis, first deny the problem, then promise to study the issue, then resolve it with some personnel changes. In stark contrast, JetBlue moved swiftly to own up to its failures, honestly explain why they happened [...], and worked to both fix the problem and mend fences with customers who were harmed."<sup>92</sup> However, the former CEO Neeleman had to step down in response to the Valentine crisis<sup>93</sup> a couple of months later and similar problems have been reported with passengers delayed in planes for 25 hours in June 2007.<sup>94</sup>

#### **6.7.4. Example 4: Pepsi**

##### **Company**

Pepsi was founded in 1965, and is one of the largest food and beverage companies in the world. Headquartered in Purchase, New York, the company has operations in 200 countries. Pepsi recorded revenues of \$35 billion in 2006 with a net profit of \$6 million.<sup>95</sup> Pepsi Cola International first entered the Indian market in 1988 through a joint venture with a government-owned company. In 1994, Pepsi-Co bought out its Indian partner.<sup>96</sup> From 1989-2004, Pepsi-Co invested \$700 million in the Indian growth market; annual sales for Pepsi India in 2004 neared \$1 billion.<sup>97</sup>

##### **Crisis: Pesticides in Pepsi drinks**

On August 5, 2003, the Center for Science and Environment (CSE) Director Sunita Narain announced that her group had conducted a study that revealed "shocking quantities of pesticides" in many Pepsi and Coca-Cola beverages produced in India.<sup>98</sup> Narain, a well-known activist, emphasized the "extremely toxic" nature of the pesticides that, with prolonged exposure, cause "cancer, damage to the nervous and reproductive systems, birth

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<sup>91</sup> USA Today (2007). What meltdown? JetBlue Named Top U.S. Airline.

[http://www.usatoday.com/travel/flights/2007-06-05-jetblue-survey\\_N.htm](http://www.usatoday.com/travel/flights/2007-06-05-jetblue-survey_N.htm)

<sup>92</sup> Business Week (03/62/2007), Readers Report. JetBlue Customers stand by their Carrier.

<sup>93</sup> The Star (06/01/2007). Ex-JetBlue CEO Sells 2.5M Shares.

<sup>94</sup> New York Post (06/29/2007). Get a Clue Blue! 25-hr. Ordeal of JFK-Bound Fliers.

<sup>95</sup> <http://www.datamonitor.com> (6/24/07), Company Profiles: Pepsi-Co.

<sup>96</sup> Ibid.

<sup>97</sup> <http://www.domain-b.com> (10/26/04), Pepsi-Co India Sales to Hit \$1-Billion Mark Soon.

<sup>98</sup> <http://www.tribuneindia.com> (8/05/03), Pesticides Found in Coke, Pepsi.

defects and severe disruption of the immune system.”<sup>99</sup> Narain said that the study found the pesticides in Pepsi-Co brands to be, on average, 36 times higher than the European Economic Commission (EEC) standards; no such standards had yet been established by the Indian government for beverages. Moreover, the CSE found vastly lower incidences of pesticides in sodas sold and manufactured in the US, prompting Narain to accuse these “global players who fake social responsibility” of producing products abroad “they wouldn’t dare sell at home.”<sup>100</sup> The Indian press was outraged at news of this report, the Times of India wrote of the “deadly cocktail of pesticide residues”<sup>101</sup> in major cold drink brands; the Tribune called the report “a startling revelation.”<sup>102</sup>

### **Communication Strategy:**

Hours after the CSE accusations became public, Pepsi denied all claims of tainted products; Pepsi India Chief Executive Rajeev Bakshi suggested the CSE report was “baseless” and “should be disregarded.”<sup>103</sup> The company quickly placed ads in the largest circulation newspapers seeking to counter the accusations—but these same papers ran editorials accusing Pepsi of utilizing double standards.<sup>104</sup> Bakshi publicly criticized the inflammatory campaign being waged by the Indian media declaring, “this is a trial by media,” and considered bringing the CSE to court for publishing what Pepsi considered to be bogus findings.<sup>105</sup> Pepsi executives resolutely discredited the CSE findings, suggesting that the method used was for testing water and that it would lead to the wrong conclusion for soft drinks.<sup>106</sup> In an article which focused on the dire health concerns presented in the CSE findings, Bakshi was unflappable: “We expect a temporary setback for about a week or so and then we are sure the consumers will have the same confidence in us they have always shown.”<sup>107</sup>

### **Result:**

Initially, Indian consumers were enraged by the CSE findings. Protestors in Mumbai and Kolkata defaced Pepsi and Coke ads and burned placards depicting soda bottles; several India

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<sup>99</sup> Ibid.

<sup>100</sup> Business Week (6/11/07), Pepsi: Repairing a Poisoned Reputation in India.

<sup>101</sup> The Times of India (6/5/03), Test Reveal Pesticides in Coke, Pepsi, Mirinda”.

<sup>102</sup> <http://www.tribuneindia.com> (8/5/03), Pesticides Found in Coke, Pepsi.

<sup>103</sup> <http://www.abc.com> (8/6/03), Coke, Pepsi in India Deny Pesticides in Soft Drinks.

<sup>104</sup> The Financial Times (8/8/03), Coca Cola and Pepsi May Take Legal Action Over ‘Pesticide’ Claim.

<sup>105</sup> Ibid.

<sup>106</sup> Indian Business Insight (8/16/03), Pepsi India Chief Slams CSE Test Method.

<sup>107</sup> Inter Press Service (8/6/03), Health: Indian Coke and Pepsi Laced with Pesticides, says NGO.

states temporarily restricted or banned soda sales.<sup>108</sup> A popular Indian guru, Baba Ramdeu, began telling his cable-television viewers that Pepsi and Coke should be used as “toilet cleaners.”<sup>109</sup> Moreover, the CSE continued a campaign of e-mail alerts and accusatory press releases inviting comments from journalists and bloggers worldwide.

Several weeks after the CSE report was released, Pepsi officials reported daily sales figures had dropped by 30%.<sup>110</sup> According to *Business Week*, linking Pepsi with pesticides was enough to scare off even sophisticated consumers. Advertising executive Manish Sinha, a former cola loyalist, admits he would rather be safe than drink Pepsi. “I no longer trust the cola companies,” he said.<sup>111</sup> Fallout from the 2003 crisis also took the form of management shakeouts: three executive VP’s, one unit head and an executive director of Pepsi India resigned in December 2003 due to “low morale and discontent in the company after the pesticide controversy.”<sup>112</sup> Nonetheless, despite short-term losses and lingering consumer concerns, Pepsi appeared to be financially recovering from its pesticide crisis. By September 20, Bakshi reported that Pepsi’s sales were returning to the pre-controversy level.<sup>113</sup> In October 2003, *Business Standard* reported that “Indian operations have contributed significantly to the third-quarter growth of Pepsi-Co International”- despite the sharp dip in sales in the “days” following the CSE report.<sup>114</sup> By April 2004, the *Economic Times of India* headlined an article “Cola majors get fizz back” and reported Indian sales growth for Pepsi for first quarter 2004 to be in the high teens.<sup>115</sup> Some analysts believed the crisis had been averted, if not resolved, just as “previous health scares blew over.”<sup>116</sup>

Over time, however, the crisis actually smoldered. The CSE, under Narain’s direction, continued to pursue the pesticide problem, building a strong consumer following along the way. On August 2, 2006, the CSE issued a second report that declared, “three years after CSE released its findings...soft drinks remain unsafe and unhealthy.”<sup>117</sup> Media analysts agreed that this second crisis was more serious than the first. In the days that followed the 2006 CSE

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<sup>108</sup> Ibid.

<sup>109</sup> *Wall Street Journal* (9/12/06), Economics: Path to India’s Market dotted with Potholes.

<sup>110</sup> *Dow Jones International News* (8/21/03), India Government: Toxin Levels in Coke, Pepsi Less than Alleged.

<sup>111</sup> *Business Week* (6/11/07), Pepsi: Repairing a Poisoned Reputation in India.

<sup>112</sup> *Indian Business Insight* (12/27/03), It’s Official: Pepsi Loses Managers.

<sup>113</sup> *India Business Insight* (9/30/03)

<sup>114</sup> *Business Standard* (10/8/03), India Sales Prop Pepsico Profit.

<sup>115</sup> *Economic Times* (4/24/04), Cola Majors Get Fizz Back.

<sup>116</sup> *Reuters Health E-Line* (8/18/03), Coke, Pepsi in Hot Water Over India Health Scare.

<sup>117</sup> *The Indian Economic Times* (8/4/06), Cola Giants Get Déjà Vu Feeling.

report, seven of India's 28 states imposed partial or complete bans on Pepsi and other company sodas. There were also reported scattered demonstrations with environmental groups calling out: "Coke, Pepsi, Quit India."<sup>118</sup>

### **6.7.5. Example 5: Whole Foods**

#### **Company**

Whole Foods was founded in 1980 in Austin, Texas, pioneering the supermarket concept in natural and organic foods retailing<sup>119</sup> with 190 stores in the U.S., Canada and the U.K. and \$5.6 billion in revenues.<sup>120</sup> Since 1996, the company has consistently ranked as one of the "100 Best Companies to Work for in America" by *Fortune*.<sup>121</sup> On February 21, 2007, Whole Foods agreed to buy arch competitor Wild Oats Market for \$565 million.<sup>122</sup> Viewing the merger as "anticompetitive," the Federal Trade Commission (FTC) sought to block Whole Foods' offer and, in June 2007, initiated an investigation.<sup>123</sup>

#### **Crisis: CEO's anonymous Internet postings**

While investigating the company's motives for the proposed merger, the FTC stumbled upon a disturbing skeleton in CEO John Mackey's closet: since 1999, Mackey had been engaged in pseudonymous postings on Yahoo's Finance Message Board. According to *USA Today*, "Rahodeb" (Mackey's online identifier) was "unstintingly bullish on the prospects of Whole Foods continuing growth, and frequently critical of a rival company, Wild Oats."<sup>124</sup> In light of Whole Foods' intended takeover of Wild Oats, the media pounced on the story, revealing the often-incriminating details of Mackey's postings. Industry observers voiced surprise and disillusionment in both mainstream media and on specialized sites—debating the legality and morality of Mackey's actions. Describing the incident as an "...embarrassing message board brouhaha," the technology industry newsletter *Techdirt* commented, "It's not clear that what he did was necessarily illegal, but his posting seems unethical and highly foolish...If nothing

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<sup>118</sup> Associated Press Newswires (8/27/06), Coke, Pepsi Doing Little to Confront Pesticide Allegations in India.

<sup>119</sup> <http://www.wholefoodsmarket.com>.

<sup>120</sup> Hoovers, Whole Foods Market, Inc., Financials.

<sup>121</sup> <http://www.wholefoodsmarket.com>.

<sup>122</sup> *usatoday.com* (7/12/07), Whole Foods' CEO Was Busy Guy Online.

<sup>123</sup> *Ibid.*

<sup>124</sup> *Ibid.*

else, the company's stockholders should wonder about what the boss is doing with his time."<sup>125</sup>

Once the details of Mackey's postings were made public, it appeared some investors had lost faith in Mackey and the future success of the brand. CTW Investment Group, a major Whole Foods Market shareholders group, sent a letter to the chain's board of directors asking that Mackey step down as chairman. Lay bloggers and Whole Foods customers, on the other hand, were neither unanimously angry with Mackey nor ready to turn away from the brand, en masse, as a result of the incident. As one contributor to *Techdirt*'s site wrote: "Isn't part of the CEO's job to promote public confidence for his company? As long as he's just cheerleading and not disclosing insider information, isn't this what he is supposed to be doing?"<sup>126</sup> While not overly critical of Mackey, a woman writing on [www.allbusiness.com](http://www.allbusiness.com) nonetheless expressed confusion over his actions: "Whole Foods are fantastic stores, and it's a great company. But what public company CEO makes this kind of rookie mistake?"<sup>127</sup> And, for some bloggers, Mackey's only mistake was getting caught, as exemplified by this posting on *Wired*, "Forget just the CEOs. How many various high level employees...are hitting the financial blogs? Maybe the better question is—how many are not?"<sup>128</sup>

### **Communication Strategy:**

One week after the FTC revealed "Rahodeb's" Internet activities, CEO Mackey issued the following succinct public apology statement directed at Whole Foods investors:

"I sincerely apologize to all Whole Foods Market stakeholders for my error in judgment in anonymously participating on online financial message boards. I am very sorry and I ask our stakeholders to please forgive me."<sup>129</sup> Mackey followed this formal apology by publishing an explanation under the "FAQ" section on the company website, using a tone more appropriate for Whole Foods customers than investors, writing:

"I posted on Yahoo under a pseudonym because I had fun doing it. Many people post on bulletin boards using pseudonyms. I never intended any of those postings to be identified with me...The views articulated by "rahodeb" sometimes

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<sup>125</sup> <http://www.techdirt.com> (7/12/07), Whole Foods CEO Caught in Embarrassing Message Board Brouhaha.

<sup>126</sup> Ibid.

<sup>127</sup> <http://www.allbusiness.com> (7/16/07), Whole Foods CEO Leads Interesting On-line Life.

<sup>128</sup> <http://blog.wired.com> (7/18/07), Whole Foods CEO Apology Followed by Internal Investigation.

<sup>129</sup> <http://www.smartmoney.com> (7/17/07), Whole Foods CEO Threatens Merger, Fuels Arbitrage.



represented what I actually believed and sometimes they didn't. Sometimes I simply played "devil's advocate" for the sheer fun of arguing. Anyone who knows me realizes that I frequently do this in person, too."<sup>130</sup>

### **Result:**

Ultimately, the Rahodeb incident had little long-term effect on consumers. Perhaps, as crisis communications consultant Eric Dezenhall suggested soon after the story broke, the incident represented "more of an embarrassment than an issue of profound ethical and legal consequence."<sup>131</sup> On the day following the FTC disclosures, Whole Foods Market's share price dropped only slightly—about 1%—with double the average shares changing hands.<sup>132</sup> A few weeks later, Whole Foods reported a less-than-anticipated dip in third-quarter profits and a 13% increase in revenues, significantly bumping up share prices.<sup>133</sup> One month after Mackey's postings were made public, on August 17, 2007, the Federal Court overrode the FTC's ruling, permitting Whole Foods to merge with Wild Oats. Commenting on the decision, the *New York Times* wrote, "In the end, the online ramblings of Rahodeb didn't scuttle the plans of Whole Foods Market to buy Wild Oats."<sup>134</sup> A press release issued on November 20, 2007, by Whole Foods Market reported fourth-quarter revenues, ending September 30, to have increased 24.7% versus a year ago. Annual revenues, ending on the same date, jumped from \$5.6 billion to \$6.6 billion. More than six months after the FTC revealed Rahodeb's identity, Mackey remained president and CEO of Whole Foods Market.

### **6.7.6. Example 6: Mattel**

#### **Company**

Mattel, based in El Segundo, California, was founded in 1945 and has since grown to become the largest toy manufacturer in the world with revenues of nearly \$5.7 billion in 2006<sup>135</sup> and an annual toy output of nearly 800 million units.<sup>136</sup> Its product line includes Barbie dolls, Fisher Price toys and Hot Wheels and Matchbox cars.<sup>137</sup> In 2006, Mattel owned and operated

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<sup>130</sup> <http://www.forbes.com> (7/12/07), Mackey's Alter Ego.

<sup>131</sup> [usatoday.com](http://usatoday.com) (7/12/07), Whole Foods' CEO Was Busy Guy On-line.

<sup>132</sup> *Austin American-Statesman* (7/13/07), Whole Foods Trades Heavily, Dips Slightly.

<sup>133</sup> *Dow Jones Business News* (8/1/07), Whole Foods Profits Slips, But Shares Soar.

<sup>134</sup> <http://www.nytimes.com> (8/17/07), Judge Sides with Whole Foods on Deal for Wild Oats.

<sup>135</sup> Hoovers, Mattel, Financials, 1/29/08.

<sup>136</sup> BBC (9/21/07), China Detains Four for Involvement in Mattel Toy Recall.

<sup>137</sup> Hoovers, Mattel, Overview, 1/29/08.

10 factories worldwide that produced half of its toys. The remaining 50% of Mattel's production was outsourced to third-party vendors in China.<sup>138</sup>

### **Crisis: Lead paint and loose magnets on toys**

During the summer of 2007, Mattel endured three separate toy recalls, ultimately involving the recall of nearly 20 million toys worldwide. Of these toys, 17.4 million were recalled because of loose magnets and the possibility of near-fatal intestinal complications if ingested, while 2.2 million were recalled because of impermissible levels of lead linked to serious health problems in children, including brain damage.<sup>139</sup> This prompted a U.S. Congressional Committee to demand information from Mattel about the numerous recalls involving lead-tainted children's products made in China.

### **Communication Strategy:**

Mattel was quick to empathize with consumer concerns, but backed away from taking direct responsibility for the recalls, blaming Chinese manufacturers for ignoring Mattel's quality control mandates. On the day news of lead paint on Mattel toys broke, CEO Bob Eckert commented to the *New York Times*: "This is a vendor plant with whom we've worked for 15 years; this isn't somebody that just started making toys for us. They understand our regulations, they understand our program, and something went wrong. That hurts."<sup>140</sup> On the day following the second recall announcement, Mattel ran an ad campaign in the *Wall Street Journal*, the *New York Times*, the *Financial Times US* and *USA Today* featuring a photograph of children playing and a letter written by CEO Eckert: "Nothing is more important than the safety of our children...Our long record of safety at Mattel is why we're one of the most trusted names with parents, and I am confident that the actions we are taking now will maintain that trust."<sup>141</sup> Eckert added that Mattel had implemented a three-point checking system "to ensure that only paint from certified suppliers is used."<sup>142</sup> Eckert also filmed a video apology to parents that was distributed online pledging to "significantly increase the frequency of its paint inspections."<sup>143</sup> Making appearances on numerous TV news programs, including *CNN* and *ABC News: Nightline*, Eckert maintained Mattel's commitment to rigorous standards, once again inferring that Chinese factories had let Mattel down: "I'm

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<sup>138</sup> [cnnmoney.com](http://cnnmoney.com) (8/14/07), Blame U.S. Companies for Bad Chinese Goods.

<sup>139</sup> BBC (9/21/07), China Detains Four for Involvement in Mattel Toy Recall.

<sup>140</sup> <http://www.newyorktimes.com> (8/2/07), Lead Paint Prompts Mattel to Recall 967,000 Toys.

<sup>141</sup> *Brand Republic* (8/15/07), Mattel Launches Ad Campaign as Second Recall Is Revealed.

<sup>142</sup> Ibid.

<sup>143</sup> <http://www.wallstreetjournal.com> (8/15/07), Mattel Does Damage Control.

disappointed, I'm upset. But I can assure your viewers that...we'll continue to enforce the highest quality standards in the industry.”<sup>144</sup>

Ten days after the Senate hearings, in a dramatic and unexpected about-face, Mattel Executive VP Thomas Debrowski traveled to Beijing to publicly apologize to the Chinese government and to finally assume “full responsibility” for the past summer’s recalls, noting Mattel’s duty to perform final quality checks on its imports. Debrowski also acknowledged, “The vast majority of those products that were recalled were the result of a design flaw in Mattel’s design [referring to the magnet issue]...lead-tainted toys accounted for only a small percentage of the toys recalled...We understand and appreciate deeply the issues that this has caused for the reputation of Chinese manufacturers.”<sup>145</sup>

### **Result:**

Not surprisingly, U.S. consumers were losing faith in the Mattel brand and its reliance on Chinese production facilities as a result of the recurring recalls. As one mother whose young son had repeatedly “mouthed” a Mattel toy targeted by the recall expressed on *ABC News: Nightline*, “You just expect more from an American company, an American toy company, knowing that their products are going into the hands and the mouths of small children.”<sup>146</sup> Another mother of a five-year-old girl was quoted in the *Newark Star Ledger*: “I’m very worried. Today when I saw the newspaper, my daughter was playing with that Barbie doll. You can lose a kid over a \$14.99 doll. It’s very scary.”<sup>147</sup>

After the massive second recall, toy industry analyst Doug Hart predicted, “This could be the time that consumer perception begins to change in relation to Mattel and Barbie.”<sup>148</sup> Crisis communications consultant Howard Rubenstein agreed: “Mattel has a spectacular reputation that they risk now...it is a mighty blow.”<sup>149</sup> Rubenstein further suggested Mattel needed to take “dramatic steps” to contain the damage. One day after news of the first recall was released, Mattel reported that this recall alone would reduce second-quarter 2007 operating income by almost 50%.<sup>150</sup> On the day the second recall was announced, Mattel stocks

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<sup>144</sup> *cnn.com* (8/14/08), Rigorous Standards After Massive Recall.

<sup>145</sup> *Washington Times* (9/22/07), Mattel Apologizes to China.

<sup>146</sup> *ABC News: Nightline* (8/14/07), Tainted Toys: Mattel Recalled More Chinese-made Toys.

<sup>147</sup> *Newark Star Ledger* (8/16/07), Jersey Toy Stores Empty Their Shelves.

<sup>148</sup> <http://www.wallstreetjournal.com> (8/15/07), Mattel Does Damage Control.

<sup>149</sup> Reuters (8/14/07), Mattel Image Hit, Recall Suits a Risk.

<sup>150</sup> *Vancouver Sun* (8/3/07), Mattel Toy Recall Forecast to Cut Q2 Income by Half.

plunged by as much as 6%.<sup>151</sup> On October 15, in an article headlined “Mattel: Recalls Are the Least of Its Problems,” CNN Money reported dramatically lower-than-projected third-quarter profits and sales for Mattel, with U.S. sales of its flagship Barbie brand tumbling 19% as a result of the recalls.<sup>152</sup>

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<sup>151</sup> Reuters (8/14/07), Mattel Recalls Millions More Chinese-made Toys.

<sup>152</sup> [cnnmoney.com](http://cnnmoney.com) (10/15/07), Mattel: Recalls Are the Least of Its Problems.